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Why America Must Act Now

The nation faces critical challenges that must be addressed to ensure that the U.S. remains a leading economic force.

Published by
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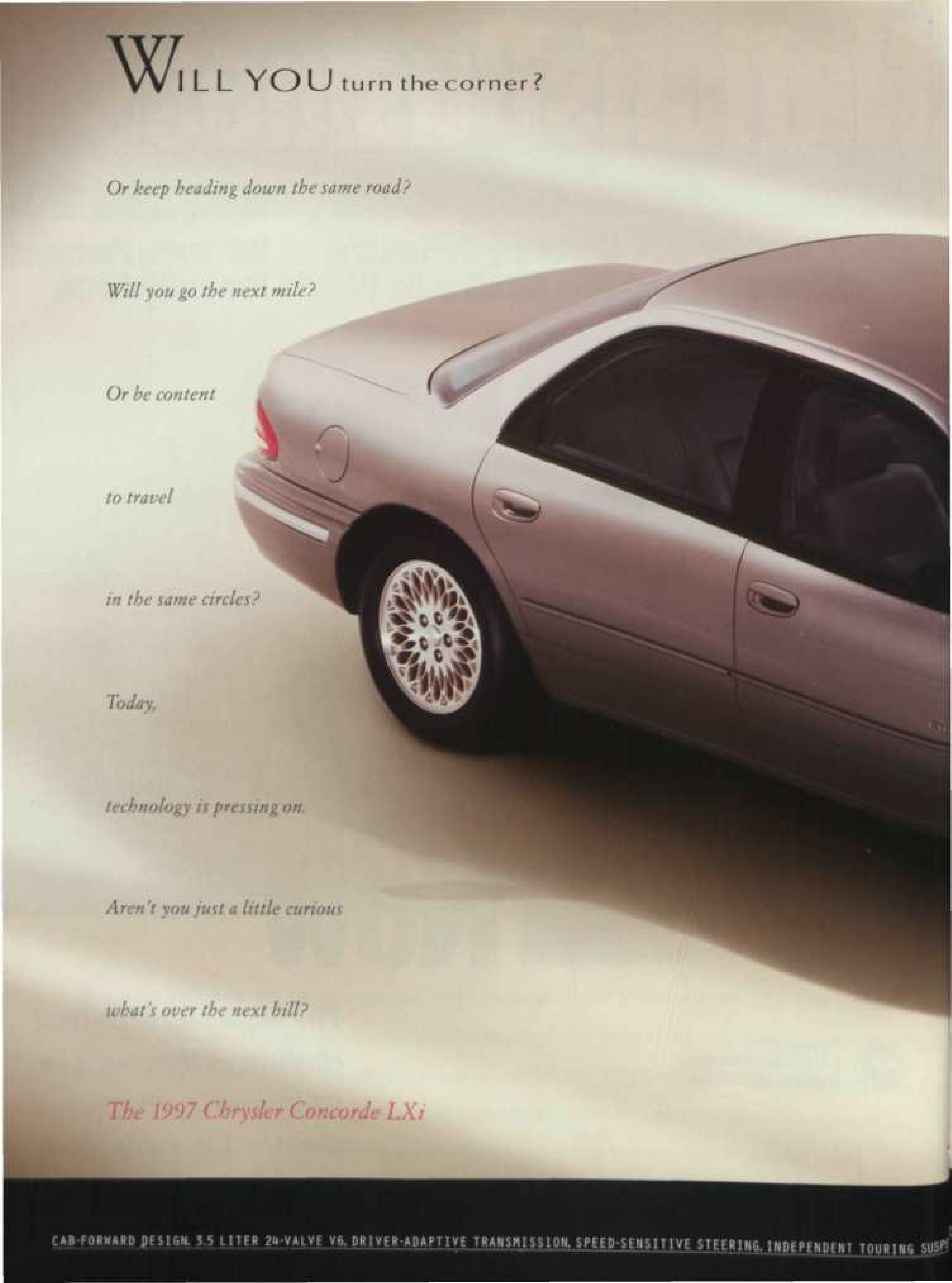
FEBRUARY 1997 - $2.50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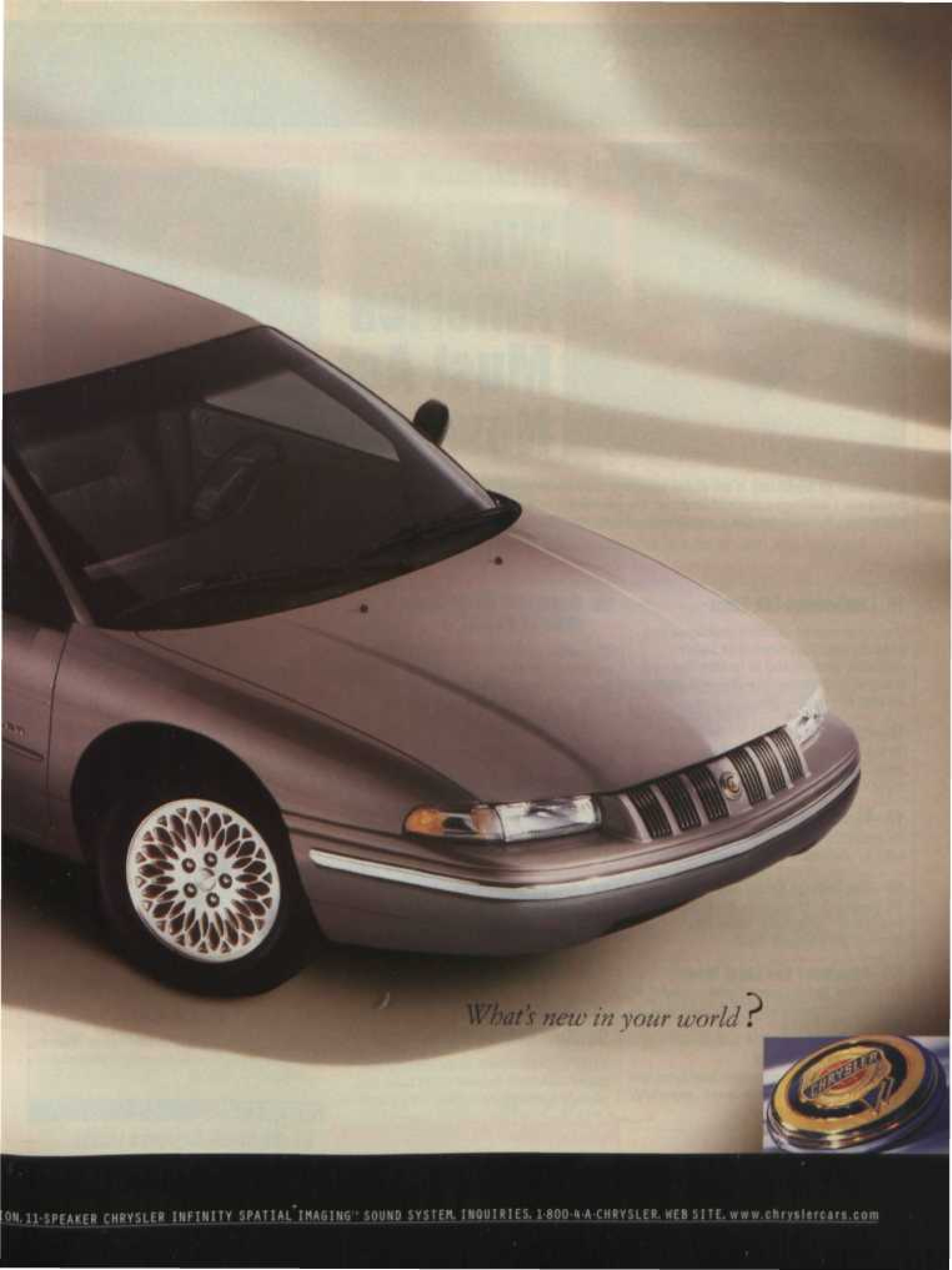
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PHOTO: T. MICHAEL KEZA

Why America Must Act Now

To maintain its leadership in the global economy, *the nation must solve a host of critical problems. Challenges facing Congress, the president, and the rest of America lie in education, federal spending, regulation, crime, and trade. Cover Story, Page 16.*

PHOTO: ©RICHARD HOWARD

Business blossomed *for retailer Karla Brown with the help of the federal Microloan Program. Finance, Page 34.*

VOL. 85, NO. 2

PHOTO: ©ROBERT HOLMGREN

Scaling the heights *of his indoor climbing facility: founder Mark Melvin, with son Daniel. Making It, Page 12.*

DEPARTMENTS

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Editor's Note

The Teamwork Imperative

PHOTOS: T. MICHAEL KEZA

Some jobs simply can't be accomplished without effective teamwork. It's what we relied on at *Nation's Business* to produce this month's cover story, "Challenges We Face," and we couldn't have done it without the close cooperation of our art, editorial, and production departments.

Similar teamwork will be required of Congress and President Clinton as they begin to address the major threats to our nation's well-being. We've outlined some of the most critical challenges in the cover story, beginning on Page 16.

Congress and the president could simply take the easy way out and ignore the challenges, but the problems are large and will only get worse unless America acts now.

Our intention is to help readers understand the challenges and why quick steps by—and cooperation among—our nation's leaders are essential in addressing them.

Hiring someone from the outside to lead a family business can produce significant results. In the article beginning on Page 53, Editor-At-Large Sharon Nelton looks at the potential benefits of hiring an outsider and what experts suggest about finding the right leader for a firm.

PHOTO: ©JOE TRAVER—GAMMA LIAISON

Zippo Manufacturing Co., in Bradford, Pa., is among the companies that have found success by going outside. At left is its nonfamily president, Michael Schuler.

Even if your company is not a family firm, you're likely to find some hiring tips that will be applicable to your business.

Next month, our cover story will look at why small companies can't ignore the Internet. Whether you're totally uninterested in the Internet or are already using it, you might learn something about what your competitors may be doing.

Mary Y. McElveen

Mary Y. McElveen
Editor

Nation's Business

Letters

Mixing Golf And Business Has Its Handicaps

Your December article "The Greening Of Deal Making" neglected to mention that from a security standpoint, a golf course is probably one of the worst places to do business.

That innocent golfer walking behind you on the back nine might well have a "snooper" voice recorder in his or her bag that picks up every aspect of the new business deal between you and your client.

ILLUSTRATIONS: SCOTT NEITZKE

The 19th hole is one of the best places for a rival to gain knowledge of your business plans, as alcohol-saturated tongues loosen. One of your salespeople, trying to impress a customer with his knowledge of your company, might also be impressing the corporate spy sitting next to him at the bar.

I suggest that business discussions be conducted in the privacy of an office and that time spent on recreation be spent only on recreation. You and your customer will both have a better understanding of what has been agreed upon than if you tried to remember what was discussed over drinks at the clubhouse bar.

Lloyd Hornbostel Jr., Partner
Business Technology Services
Roscoe, Ill.

Education Is The Issue As Jobs Are Created

As a soon-to-graduate college student, I was excited to read your October cover story, "The Flip Side Of Downsizing."

Suddenly the future was shining, and I was sure I would find a job that paid well after college. The article is optimistic and should be read by my entire generation to give them back the hope they have lost.

Soon, however, I saw another "flip side." The job market may have nice work available for the unemployed, but do the unemployed have nice skills available for the job market? Now that we know that companies are creating jobs, the big issue is education.

And I started to worry again: Am I in the right major? Is someone going to tell me before I graduate what kinds of skills companies need? Are colleges establishing curricula that will enable their students to get jobs that pay well?

Finally, I concluded that what is needed is some form of feedback from the job market to the education system, perhaps an organization that could provide guidelines to colleges on setting curricula.

Isabelle Dauchel
Bowling Green State University
Bowling Green, Ohio

Keep Social Security Out Of Financial Markets

In your reader poll on Social Security [Where I Stand, December], questions 7 and 8—about the investment of Social Security taxes in private financial markets—were ludicrous and should never have been put on the page.

Would you use borrowed money to make a risky investment when you could instead use the funds to pay down your debt?

Would you take a chance on netting a 2 or 3 percent annual return after administrative expenses when you could instead reduce debt that is costing you 10 to 20 percent interest, with virtually no administrative expenses?

Get a grip!

Chuck Davis
President
Amdraft/C.T.I.
Huntington Beach, Calif.

[Editor's Note: The results of December's Where I Stand poll are on Page 68.]

Separating The Family From The Family Business

The timing of "If I Only Knew Then What I Know Now" [Family Business, September] could not have been better for me.

I am a college student studying business, and this spring my brother, sister, and I will be taking the state real-estate exam. My father started a small real-estate company a number of years ago, and it has become quite successful. Now we are going to be working together in the firm and possibly expanding it.

To make this successful, or even possible, we must have total family agree-

ment. We need to understand how to run the business and how to keep family and personal problems out of business procedures.

Any person with good family morals would never put work before family, and it seems to me to be common sense that one should always keep business and family matters separate. My father established his real-estate company successfully but still managed to attend every sports event in which his five children participated. He was almost always home in time for dinner at 6 o'clock.

It was a great help for my family to learn that we can run a successful business and still be a family, although we need to focus on keeping business and family matters separate.

After reading your article, I know that my siblings and I will go about operating our family business in a cautious, intelligent, and economical fashion.

Susan MacMaster
Sault Ste. Marie, Mich.

Managed Care Provides Convenience, Not Savings

"Benefit Costs Hit A Record High" [Dateline: Washington, December] reported that the decline in employer spending on medical insurance in 1995 "was a result of savings derived from managed-care programs and from the fact that employees paid a greater share of total premiums."

As long as *Nation's Business* and others persist in repeating the easily disproved myth that managed care cuts health-care costs, they will continue to promote the constantly *increasing* cost of health care.

The only good thing about managed care is the convenience it provides management. But this is a convenience that all of us pay for.

And is convenience worth the price of shifting costs so that they end up either in decreased consumer spending, increased inflation, or an increased deficit?

That's what managed care is really doing.

Dr. George C. Manning
Fort Wayne, Ind.

Employee Stock Plans Given The Green Light

Your January Direct Line article "Taking Stock" left out an important bit of information regarding S corporations and employee stock ownership plans (ESOPs).

While it is true that at this time an S corporation cannot sponsor an ESOP, I am happy to report that beginning in January 1998, S corporations will be able to set up ESOPs.

Thanks to the Small Business Jobs Protection Act of 1996, which was signed into law in August, employees in S corporations will soon be able to share in the wealth they help create through employee stock ownership plans.

J. Michael Keeling
President
The ESOP Association
Washington, D.C.

[Editor's Note: For a complete look at the changes in S corporation law under the Small Business Jobs Protection Act, see "Easier Rules Take Effect For S Corporations," Page 63.]

For The Record

Several readers informed us by electronic mail of an inaccuracy in our January article "Preventing Time From Marching Backward."

The story, which was about the problems that many computers will encounter come the year 2000, stated that Monday, Jan. 3, 2000, will be the first workday of the 21st century. The 21st century will begin Jan. 1, 2001.

■

The name of a company and the spelling of the last name of the firm's owner were incorrect in our January article "The Minefield Of Merchant Status."

Biff Matthews is president of The Supply Department, a company based in Heath, Ohio, that sells and services equipment for processing credit-card transactions.

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ENTREPRENEUR'S NOTEBOOK

The Benefits Of Staying Home

By Joe Charles

Dorothy was right. There *is* no place like home.

Many companies, both large and small, go overseas to cut labor and production costs. My company—Charles Industries, Ltd., a manufacturer of telecommunications, electrical-power, and electronics components—was no exception, moving overseas when this strategy was particularly popular in the late 1970s and early 1980s.

About 10 years ago, however, I began reversing the process, closing first a plant in the Philippines in favor of expanding our Marshall, Ill., plant. Shortly after that, we closed another factory, in Port-au-Prince, Haiti, and moved its operations to a new facility, in Jasonville, Ind.

And finally, we moved an acquired company's production lines from Nogales, Mexico, to our plants in Jasonville and Casey, Ill.

The moves increased our base-line labor costs, but the higher costs are more than justified by the greater productivity and work ethic of our employees. In the United States, we also have superior quality assurance, reduced inventory and shipping costs, and improved customer service.

Since returning all production to this country (with the exception of one plant in Canada), Charles Industries has grown to $100 million in annual revenues, with more than 1,000 workers at our seven domestic plants.

For anyone who is considering foreign sites for manufacturing—or who is overseas now but rethinking—a review of the advantages of domestic manufacturing is in order.

In addition to the pride we take in the quality of our American-made products, a number of bottom-line benefits have resulted from returning to domestic production.

The big pluses are increased productivity and drastically reduced rates of product rejection and repair. We have also improved employee dependability. And we have eliminated the risk that the nuances of instructions and documentation in English will get lost in the translation.

In addition, we have eliminated problems such as those that occurred in Haiti, where we lost thousands of dollars to cargo-shipment and customs fees and other transaction costs.

Given the higher labor costs that exist in the United States, however, it's vital that domestic operations work at peak efficiency. Here are some ways we make it work:

Greater productivity *and higher quality are among the pluses that Joe Charles has found since his electronic-products company brought almost all of its manufacturing operations back to the U.S. from other countries.*

Look beyond the big city.

Our plants are all in small communities, where we can build a factory for about $15 per square foot as opposed to $80 or $90 in a large metropolitan area.

Look for cost savings at all turns and from all employees.

In addition to automating our production as much as possible, we have developed teams of employees from all areas of the company whose aim is to generate ideas for cutting costs and improving labor efficiency.

Involve employees in setting goals.

We have signs posted throughout our plants stating our production and sales goals. The whole company is geared to a sense of urgency and the belief that if people don't know what's needed from them, they can't meet the expectations.

When we opened our facilities in these small Midwestern towns, we found a community atmosphere that helped us increase overall productivity, product quality, and customer service while allowing us to meet our financial objectives. There is just no substitute for good old American know-how. ■

Joe Charles is president of Charles Industries, Ltd., based in Rolling Meadows, Ill. He prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to this column. Write to: Entrepreneur's Notebook, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

WHAT I LEARNED

Moving your operations overseas may look tempting, but holding to a domestic policy has many advantages.

Rule one in fleet buying: get the most for your money. Rule two: don't spend a lot.

You've heard it before. In fleet buying, the bottom line is the bottom line. Want to please both the boss and the employees? Get the Chevy Cavalier Sedan. With an engine that can go up to 100,000 miles before its first scheduled tune-up,* standard ABS and more room than you'd think, Cavalier is dependable, safe and comfortable. Best of all, it's actually affordable. All making it easy to own. As long as you keep those expense reports in line.

Cavalier

Genuine Chevrolet

The Cars More Americans Trust.

Dateline: Washington

Business news in brief from the nation's capital.

By James Worsham

CONGRESS

Head Of Small-Business Panel Vows War On Federal Rules

Rep. James Talent, the Missouri Republican who is taking over as chairman of the House Small Business Committee, says federal regulations have so "frustrated and demoralized" small businesses that it's time to turn the spotlight on the rule makers.

"I want to put the regulatory state on trial," says Talent. He plans hearings this year so small-business owners can relate their experiences with regulators and the regulators can explain their actions.

Although Talent will be targeting many regulations over which his panel has no jurisdiction, he says that "one thing this committee can at least do is to hold regulators accountable." Among the agencies he said he has in mind as subjects of the hearings are the Occupational Safety and Health Administration, the Environmental Protection Agency, the Food and Drug Administration, and the National Labor Relations Board.

Talent takes the helm of the committee from Rep. Jan Meyers, a Kansas Republican, who retired. Rep. John LaFalce of New York remains the panel's top Democrat.

Meanwhile, another Missourian, Republican Sen. Christopher S. "Kit" Bond, continues as chairman of the Senate Small Business Committee. The new top-ranking Democrat is John Kerry of Massachusetts.

Bond, too, plans to focus on federal regulations, in particular two recently enacted laws: the 1995 Paperwork Reduction Act, which is aimed at reducing the number of forms required of small firms, and the 1996 Small Business Regulatory Enforcement Fairness Act, which requires agencies to examine proposed rules with an eye toward reducing the economic impact on small businesses.

"When properly implemented, both of these laws will dramatically reduce the paperwork and regulatory burden currently faced by small business," Bond told *Nation's Business*.

Bond and Talent will also focus on several tax issues important to small business. They include restoring the home-office income-tax deduction, further clarifying the distinction between independent contractors and employees, and boosting to 100 percent the deduction that the self-employed can take for the cost of medical insurance.

PHOTO: ©UPI—WILLIAM GREENBLATT

Missouri Republicans *Rep. James Talent, left, and Sen. Christopher Bond will head Congress' small-business panels.*

Talent and Bond draw praise back home. "We have people who are already very engaged in small-business issues," says Richard C.D. Fleming, president and CEO of the St. Louis Regional Commerce and Growth Association. By focusing on small-business issues, he says, they are "building on an experience base they already have."

Talent, 40, was elected to the House in 1992, defeating first-term Democrat Joan Kelly Horn. He had served in the Missouri House from 1984 to 1992 and was minority leader from 1989 to 1992.

Bond, elected to the Senate in 1986, became chairman of the small-business panel in 1995.

Although some in Congress have sought to abolish the Small Business Administration, Talent says he sees no threat to the agency. "We need an umbrella organization" for various small-business programs, he says.

New Committee Leaders

Here are the new chairmen and top-ranking minority members for congressional committees important to small business.

In the House:

Budget: John Spratt, D-S.C., ranking. Government Reform and Oversight: Dan Burton, R-Ind., chairman; Henry Waxman, D-Calif., ranking. Ways and Means: Charles Rangel, D-N.Y., ranking.

In the Senate:

Appropriations: Ted Stevens, R-Alaska, chairman. Budget: Frank Lautenberg, D-N.J., ranking. Commerce: John McCain, R-Ariz., chairman. Governmental Affairs: Fred Thompson, R-Tenn., chairman. Labor and Human Resources: Jim Jeffords, R-Vt., chairman. ■

EXECUTIVE APPOINTMENT

Aida Alvarez Named To Head Small Business Administration

President Clinton has nominated Aida Alvarez, director of the Office of Federal Housing Enterprise Oversight, to head the Small Business Administration, succeeding Philip Lader. The appointment requires Senate confirmation.

As the first head of the housing office, beginning in 1993, Alvarez monitored the activities of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corp. (Freddie Mac). Like the SBA, the two organizations administer various lending programs.

A former New York City newspaper and TV reporter, Alvarez was an investment banker for First Boston Corp. and Bear Stearns. She worked in Vice President Al Gore's 1988 presidential bid and President Clinton's 1992 campaign. NB

Managing Your Small Business

Keeping the end in sight; backing up the fax; creating a group to generate big-picture advice.

By Roberta Maynard

GOAL SETTING

Harboring No Illusions About How To Grow

Getting a business to grow requires no feat of magic. To Scott Grocki, it's just a matter of creating a target and keeping focused on expansion.

Grocki, 26, is president of Grocki Magic Studios. His belief in setting goals began long before he started the company three years ago. As a boy, he set and met a goal to get the lead in a high-school play. Later, he was determined to work his way through college by doing magic shows—and he did.

Now, he and Jennifer Brown, his business manager and performing partner, are busy creating magic presentations for corporate events. More than ever, Grocki believes in the power of setting goals to make things happen.

In their office in Boca Raton, Fla., the partners have more goals than they have places to put them. Their long-term goals—"Broadway" and "Television"—are spelled out on the wall as constant reminders that they want to appear on national television, create a Broadway show revolving around magic, and eventually own their own theater. And "Art" is on the wall as a reminder to strive for artistic integrity.

PHOTO: ©TOM SALYER

Setting goals *conjures up success for Scott Grocki and Jennifer Brown of Grocki Magic Studios.*

Grocki's monthly and six-month goals are kept on file and reviewed every couple of weeks. Weekly goals are posted next to the office telephone. Every Monday, new goals are set, with Brown taking care that they "match the writing on the wall"—that they fit into the long-term strategy. The weekly goals drive activity at the company, and they simply flow from the business's challenges, such as booking more shows.

When Grocki and Brown moved to Boca Raton last year, the goals they would set for any given week might have included getting in touch with every agent in the area, calling local charities to ask about opportunities to perform, and making a list of meeting planners. The following week's goals would call for contacting those meeting planners.

"When you set a goal, you create something and it becomes real," says Grocki. "You write it down. You focus on it. You aspire to it, and that's your motivation."

Grocki estimates that he and Brown meet 80 percent of the goals they set. But it took time to fine-tune the goal-setting process. "At the beginning, there was a tendency to put down too many goals, then we got swamped trying to meet them all," he says.

He advises planners to keep goals to a manageable number. A limit of 10 weekly goals has worked well for him. Make sure all goals are positive; use terms like "we can" and "we will." Another tip: Next to the goal, write down what the company loses if the goal isn't met. The most important thing, says Grocki, is to be flexible, to change goals if necessary.

"A lot of people do the New Year's thing—set a goal and let it drift to the background. For me, focus and constant review make it work," says Grocki. "It's not important to know how you'll get there, just that you will." The company had revenues of $250,000 in 1996, and one of Grocki's five-year goals is to take revenues to the millions. ■

LEGAL DOCUMENTS

The Fax May Not Suffice When Contracts Are Signed

Despite the common use of fax documents in business, there is still a legal question as to whether a contract is binding if its documents were sent and received by fax. The question remains because the law hasn't caught up yet with the routine use of fax machines, says Linda Bluso, founding partner of Buckley, King & Bluso, a Cleveland law firm.

Though the courts, in addressing the issue in a few mostly noncommercial cases, have been nearly unanimous in holding faxed signatures to be binding, there is still reason for caution, according to Jeffrey Ritter, who heads the American Bar Association's Committee on the Law of Commerce in Cyberspace. His committee has looked at commercial use of faxed documents as part of its study of changes in business practices in the information age.

With regard to fax machines, a certain

comfort level has been reached, but small businesses should still exercise caution in relying on faxed signatures, says Ritter. Particularly with new customers, he says, it's good to have a short written agreement stating that faxed signatures will be used in lieu of originals. And especially for large contracts, he says, companies would be wise to secure original signatures as well as faxed ones.

In addition, notes Bluso, because a legal contract must not only be sent but also delivered and because faxes can go astray, firms sending important documents should ask the receiving party to phone or fax an acknowledgement.

Another safeguard: Printing a confirmation report (most fax machines can do it) provides a record that transmissions were sent to certain parties on certain dates. ■

TRAINING

How To Make The Most Of Learning By Video

Much of the training in small companies is done with videos and conducted by supervisors and other nonprofessional trainers. To make their jobs easier and the training more effective, Video Arts, Inc., a Chicago-based provider of business training programs, offers these tips:

■ At least two weeks before the course, inform participants and their managers of the training time, place, agenda, and objectives. If possible, use training rooms with plain walls, high ceilings, natural light, and adjacent rooms for group work and breaks.

■ Become familiar with the video player and monitor and with switches and other controls in the room.

■ Watch the video twice to familiarize yourself with the characters, story line, and examples. Note the numbers on the video footage counter so you can quickly locate scenes of particular interest to the group. Cue up the video before the group arrives.

■ Never sit a group down and simply hit the play button. Explain the course goals; invite participants to introduce themselves. Aim for a friendly, relaxed atmosphere.

■ Regularly check that your audience is still following the material by asking questions at random. Ask for opinions and examples, and get participants to suggest how training points in the video can be implemented in their situations.

■ Have all participants complete a plan outlining the action they will take as a result of the training.

■ To make improvements, always ask participants to evaluate the course. ■

EXPERTISE

Creating An Advisory Board For Sound Suggestions

Running a small consultancy can make for an isolated existence, but pulling together a group of other business people to talk with regularly about long-range planning and everyday business dilemmas makes it less so. Grace McGartland, president of GM Consultants, her business in Pittsburgh and Toronto, has formed such a group of personal business advisers, which she calls her brain trust.

"In small businesses, we tend to only go to our families for advice. But it's important to find someone who's emotionally detached from the business," she says. Unlike many advisory boards, her group focuses more on strategic matters than on operational ones and is concerned as much with generating ideas as with specific action plans.

Formation of McGartland's brain trust was set in motion about five years ago when she asked a businessman she had met on a plane if he would be interested in serving as her mentor. Her group of four, which includes former as well as current clients, usually meets quarterly for a few hours but sometimes for an entire day.

Though it's understood that the brain trust is meant to focus primarily on McGartland's business, other members benefit, too. "We all walk away feeling as though we've helped do something positive," says Mary Del Brady, a former client of McGartland's who is starting her third business, which hasn't been named yet.

"When we get together, we've created an environment where we are open with each other," says Brady. "Even though Grace's business is the focus, we talk about our own issues. Many of the ideas are directly applicable to my company. I walk away with a broader perspective. As we begin to talk about business issues and needs, ideas really pop. It's different from sitting down over dinner. The agenda keeps the discussion focused."

A brain trust *of outside business advisers helps Grace McGartland, second from left, generate ideas for her consulting firm; with her are mentors Anita F. Brattina, left, Mary Del Brady, and Howard Schapiro.*

McGartland says that CEOs who think they might benefit by creating a similar kind of group should invite people who:

■ Have a high level of respect for you and have won your trust.

■ Have small-business insight and, when together as a group, display a good mix of analytical strengths and people-oriented skills.

■ Offer objective, honest advice.

■ Are action-oriented.

■ Have experience working with you in a business setting.

■ Understand the type of support and help you seek.

Another tip: Make sure your brain-trust members don't feel that their time is being squandered. McGartland creates an agenda for each meeting based on the time period previously agreed upon by the members, and she is careful to stick to the schedule. ■

NB TIP

The Cost Of Keeping Cold

A refrigerated vending machine for beverages can cost a business $300 to $500 a year for electricity, according to E Source, Inc., an independent energy-information service in Boulder, Colo. Cleaning the coils at the back of a machine and providing adequate air circulation around it can improve efficiency and reduce cost, says E Source. Turning off the machines' lights for extended periods, such as when the business is closed, can result in significant savings—especially if the machines are newer models with full-front lighted panels, which use more power. NB

Making It

Growing businesses share their experiences in creating and marketing new products and services.

Aiming For New Heights

By Carla Goodman

Mark Melvin's business often has him climbing the walls. That's when the founder and general manager of Mission Cliffs Rock Climbing Center, in San Francisco, isn't introducing others to the joys of scaling the center's 14,000 square feet of indoor "terrain."

For Melvin, climbing is a hobby-turned-business that has proved highly profitable. Launched in August 1995, Mission Cliffs earned gross revenues of $750,000 and a 20 percent operating profit in its first year.

Indoor rock climbing has become a popular sport, attracting hikers, climbers, and others looking for a change in their exercise program. Since the nation's first indoor rock-climbing gym, Vertical World, opened in 1987 in Seattle, 350 similar facilities have opened around the country, according to estimates by the Outdoor Recreation Coalition of America, a trade association based in Boulder, Colo.

Melvin, whose 15-year climbing history includes 14 ascents of El Capitan, in California's Yosemite National Park, left a secure corporate-banking career to fill a void in the indoor-climbing market. "Here was a field I knew well and which gave me a chance to fully develop a new business," says Melvin, 36.

It took nine months of work with the San Francisco City Council to settle concerns of earthquake safety and parking for the building that Melvin would lease and renovate. The center houses weight and locker rooms, showers, saunas, a pro shop, and a massive climbing wall, built of steel, plywood, and concrete, and standing 50 feet high at its tallest point and 200 feet wide.

To raise the $500,000 he needed, Melvin rounded up 30 people who invested $5,000 to $25,000 each. Some were family members

Scaling *his company's indoor "terrain" is Mark Melvin, founder of Mission Cliffs Rock Climbing Center, in San Francisco.*

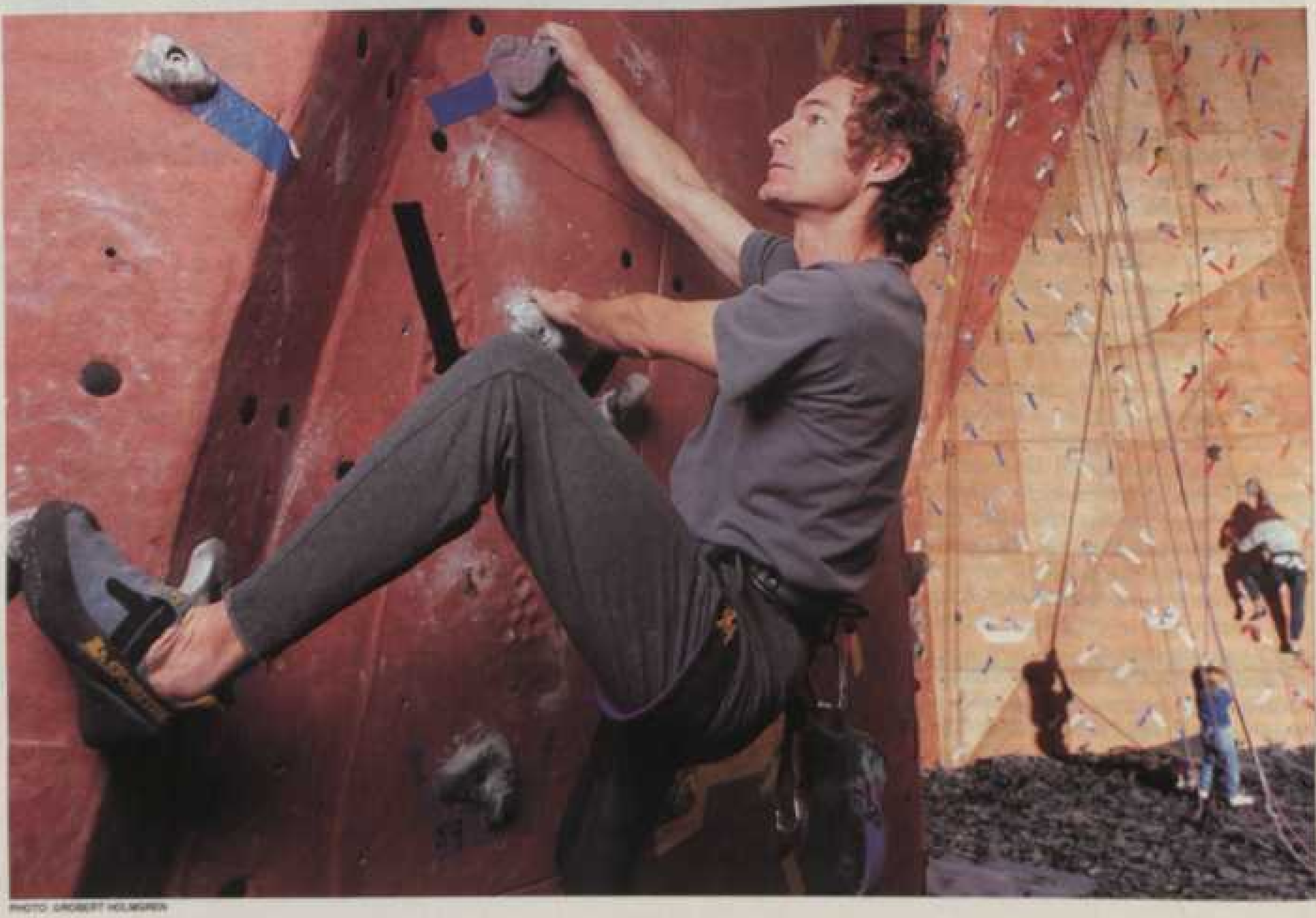


PHOTO: GROBERT HOLMGREN

or friends, but the majority, says Melvin, were "climbers interested in seeing an indoor rock-climbing facility being built."

Three months before Mission Cliffs' opening, Melvin undertook an aggressive marketing campaign to sign up members. Using mailing lists purchased from two mountaineering magazines, *Climbing* and *Rock & Ice*, Melvin's staff sent fliers to climbing enthusiasts who lived or worked within 10 miles of the center. "We started with climbers because they would spread the word for us," says Melvin.

Offers of discounts for early memberships and tours of the unfinished facility produced surprising results: Half of the 250 charter members had never climbed before. Mission Cliffs' two largest membership groups are youngsters and people 20 to 35 years old. The center's current membership base is 1,000. Individuals pay $50 a month for membership; a family of four pays $105 a month. Nonmembers pay a daily use fee.

Mission Cliffs offers climbing and instruction in basic techniques and in belay, the method of securing climbers by ropes. Instructors are available for private lessons and monthly clinics on advanced climbing techniques. Youths ages 7 through 15 participate in mock competitions and enjoy indoor and outdoor climbing at Mission Cliffs' summer camp.

"I don't think you can maintain your edge without continually innovating," says Melvin. "Otherwise, someone is going to do it better." He and his 10-person staff continually offer new programs, such as family climbing nights, corporate parties and team-building events, and sponsorship of climbing events to raise money for nonprofit organizations.

Melvin and his investors are now exploring growth options. In December, Mission Cliffs announced the acquisition of Class 5 Fitness, a climbing gym in San Rafael. Another avenue of expansion, Melvin says, could be managing climbing walls for businesses such as health clubs, which would convert unused space to offer the activity to their members.

"We're on the path of a million-dollar business," says Melvin. "The next question is how to get to $2 million. I think we can do this in other places very well." ■

Carla Goodman is a free-lance writer in Sacramento, Calif.

At The Speed Of Light

By Claire Buhl

Settled in 1837 by a group of German immigrants, Hermann, Mo., on the banks of the Missouri River, is as picturesque today as it was more than 100 years ago.

But Hermann is speeding into the 21st century at the rate of 186,000 miles per second. It is the site of Laser Light Technologies, Inc., whose founder, Phyllis Hannan, was named 1996 Small Business Person of the Year by the U.S. Small Business Administration (SBA).

Hannan's entrepreneurial career began in California. She was working in sales for a marking company—a firm that puts marks such as logos and serial numbers on products ranging from golf clubs to dental instruments. Hannan's employer used conventional methods such as chemical etching, pad printing, and silk-screening.

But a demonstration of laser marking at a technology trade show convinced Hannan that lasers were the wave of the future. They could offer more-durable marks than conventional processes, for less money, in less time—and within tighter tolerances.

Determined to learn all she could about this new technology, she went to work for Quantrad Corp., a laser manufacturer in Torrance, Calif. She rose to national sales manager, a job she continued after she launched her one-woman shop in another Los Angeles suburb, Glendale, in 1985.

"Start-up money was the hard part—this is very expensive equipment," she says. "And the trouble with banks is they don't want to talk to you unless you have a proven track record." So, with $30,000 of her life savings and money borrowed from anyone who believed in her—plus a used laser partially financed by Quantrad—Laser Mark-It, Inc., was established.

PHOTO: [illegible]

U.S. Small Business Person *of the Year Phyllis Hannan uses lasers to mark other companies' products.*

For the next five years, Hannan sold for Quantrad by day and ran Laser Mark-It by night, until her own firm was operating at capacity with 20 employees, three shifts, and customers waiting in line. As she began considering expansion, she thought of her hometown, Hermann, and of the family, friends, and quality of life that she missed.

It was a propitious time. Hermann's leaders were trying to secure new industry and offered incentives that Hannan could not refuse, such as a gift of 11 acres in a new industrial park. That plus a loan through the SBA's 504 program, which is aimed at creating or retaining jobs, enabled Laser Light Technologies to open in the spring of 1992. Hannan moved back to Hermann to run the company but remains president and CEO of the Glendale firm.

The Hermann facility is state-of-the-art, with all-purpose lasers as well as micromarking and micromachining lasers for pin-sized applications.

Hannan's more than 300 customers include IBM, McDonnell Douglas, 3M, Johnson & Johnson, and Dow Chemical. Laser Light and Laser Mark-It together employ 65 people. Combined sales are projected to top $5 million this year. "We specialize in quality and precision work. We specialize in being the best," says Hannan.

Her laser beams mark myriad products: silicon wafers, circuit boards, aircraft components, surgical and optical instruments, and watches, pens, and letter openers.

And now that she's back in her hometown with the SBA's award in hand, Hannan is beaming herself. NB

Claire Buhl is a free-lance writer in Washington, Mo.

COVER STORY

Challenges We Face

As Congress and the president begin the 1997 legislative year, our nation faces growing obstacles posing serious threats to its future. How these challenges are addressed will have enormous implications for the well-being of Americans in the next century.

"Congress, the president, and every citizen must work collectively to ensure that America will remain strong into the 21st century," says U.S. Chamber of Commerce President Richard L. Lesher. "Many of the challenges require long-term solutions. What's most important now is that our leaders make the tough decisions so the fixes can be implemented before the problems become more severe. Our country's economic health depends on it."

This report outlines challenges and potential solutions for ensuring that America is on track toward economic growth and stability into the next century. Contributing to this article were staff writers James Worsham, Stephen Blakely, and Roberta Maynard and contributing writers Robert T. Gray and Dale D. Buss.

How Eighth-Graders Compare

Mean scores on a standardized test; range is 200 to 800 points.

Science	
Singapore	607
Czech Rep.	574
Japan	571
South Korea	565
Netherlands	560
England	552
Sweden	535
U.S.	534
Canada	531
Germany	531
Israel	524
Spain	517
France	498
Greece	497
Kuwait	430
Colombia	411
South Africa	326
Average For All Countries	516

Mathematics	
Singapore	643
South Korea	607
Japan	605
Czech Rep.	564
Netherlands	541
France	538
Canada	527
Israel	522
Sweden	519
Germany	509
England	506
U.S.	500
Spain	487
Greece	484
Kuwait	392
Colombia	385
South Africa	354
Average For All Countries	513

SOURCE: THIRD INTERNATIONAL MATHEMATICS AND SCIENCE STUDY, INTERNATIONAL ASSOCIATION FOR THE EVALUATION OF EDUCATIONAL ACHIEVEMENT, 1996

PHOTO: TOM McCARTHY/FOLIO INC

Education

Challenge: To improve U.S. education so American businesses can find smart, highly skilled workers for 21st century jobs, which will be based more on brains than on brawn.

If small businesses agree on anything, it's that finding the right workers—with the proper knowledge, skills, experience, attitude, and work habits—can be extremely hard these days. And it probably won't get easier any time soon.

Already, businesses and workers have experienced the first waves of a historic shift from an industrial economy to an information and service economy, in which knowledge and skills, rather than mere physical ability on assembly lines, are the prized commodities.

As global competition intensifies, the challenge to improve education becomes almost as urgent as it was after the Soviets launched Sputnik in 1957. That event sparked interest in education and more funding for schools at all levels. It also led

Continued on Page 26

Here's why Congress, the president, and the rest of America must work together to ensure that our nation will be strong in the next century.

Fiscal Health

Challenge: To make the major policy changes necessary to prevent a federal budget disaster.

Early in the next century, the budget of the U.S. government will all but complete a dramatic and frightening transformation.

The change will be so profound that unless government spending policies are altered, the average net tax burden on Americans born between 1960 and 1993 will soar from the current 34 percent to 85 percent of their lifetime incomes, according to a widely cited estimate.

What has happened is that discretionary spending—the outlays that are easiest for Congress to control—will have shrunk to about one-fourth of the federal budget. Meanwhile, mandatory spending—the fastest-growing and most difficult to control—will have increased to almost two-thirds of the budget.

That means more federal dollars will go out as checks to individuals—Social Security and Medicare recipients, military and civilian retirees, farmers, food-stamp recipients, and veterans.

And those checks—about $935 billion worth of them in the current fiscal year—will increase each year as inflation rises.

It also means that another piece of mandatory spending—interest on the national debt—will also rise unless federal spending patterns are changed dramatically and quickly to reduce the deficit,

which adds to the debt. These costs, now about $250 billion a year, rise slowly but steadily and consume a growing share of the nation's gross domestic product, money that could otherwise be invested to create new businesses and jobs or to fund needed government programs.

Of course, Congress and President Clinton have made some progress in cutting the annual deficit in the past four years. Through cuts in defense and domestic programs and the laying off of some 250,000 federal workers, the deficit has shrunk from $290 billion in fiscal 1992 to $107 billion in fiscal 1996. But it is projected by the Congressional Budget Office to soar to $403 billion in 10 years if there are no policy and spending changes.

That amount would be enough to provide 403,000 loans of $1 million each to small businesses or could run the departments of Commerce, Energy, the Interior, Justice, Labor, and State for 10 years at current spending levels.

"The longer the inevitable policy changes are delayed, the larger, more abrupt, and more painful they will be," the Committee for Economic Development, a business policy group in New York City, says in a new report. "Moreover, the political difficulty of change will increase as the elderly grow as a proportion of the electorate."

Clinton and the Republican Congress have made balancing the budget their top priority, but they are expected to include targeted tax cuts in their plans, which were being developed at press time.

One overriding fact is clear, however: Any huge savings in federal spending will have to come from the so-called entitlement areas—Social Security, Medicare, military and civilian retirement, and scores of lesser-known programs. While cutting these benefits would be difficult po-

litically, slowing the rate at which they increase might be more acceptable.

That's why there's so much interest in a recent conclusion by a special task force of economists, which reported in December that the Consumer Price Index has been overstating inflation for 25 years. Increases in the CPI determine how much the government increases the amounts on all monthly checks for Social Security and other entitlements.

The panel, appointed by the Senate Finance Committee, said the CPI is 1.1 percentage points too high, which means it overstates today's 3 percent inflation by about one-third. The Congressional Budget Office estimates that shaving just one percentage point off the CPI for five years would save about $133.8 billion in federal spending, but, more importantly, would make the government's statistics more accurate.

When it comes to the federal budget—$1.6 trillion for fiscal 1997—it's important to understand how it's carved up. A little over half of it consists of mandatory spending (entitlements), and almost one-sixth more goes to paying interest on the national debt.

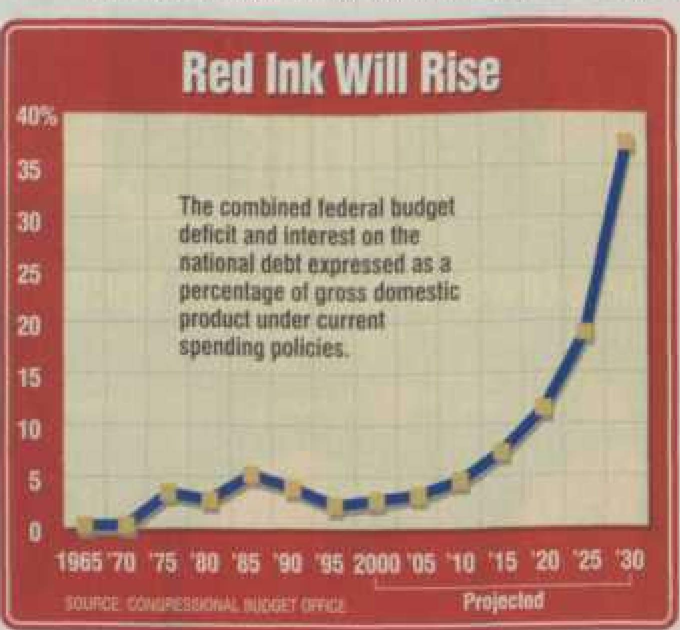
The remaining one-third is split almost evenly between defense and discretionary programs. Defense spending, which boosts local economies and generates jobs, has taken some deep cuts in recent years, especially since the end of the Cold War, but it is getting a slight increase this year.

The remaining one-sixth of the budget is full of politically popular programs. It's the portion of federal spending that—after the big entitlement programs—makes the government most evident in the lives of Americans: highway and water projects that undergird the infrastructure; loans to small businesses and college students; food inspection; federally supported housing; fighting crime; air and water pollution control; mass-transit aid; and the low-cost operation of thousands of federal parks, historic sites, museums, and other facilities.

"There's plenty of room for belt-tightening within the discretionary programs," says Scott Hodge, senior federal budget analyst with the Heritage Foundation, a conservative public-policy organization in Washington, D.C. Congress and the president, he says, must reform programs at their "core level" by changing their terms and missions, if not eliminating them; it would not suffice to merely reduce their funding without altering their governing statutes.

However, Robert Reischauer, former director of the Congressional Budget Office, warns against excessively deep cuts in domestic discretionary programs. Reischauer, now a senior fellow at the Brookings Institution, a Washington public-policy research organization, argues in a newly published book, *Setting National Priorities*, that this one-sixth of the budget contains so much of the spending necessary for the orderly functioning of the country that there's a limit to the reductions it can take.

"At some level, probably well above those promised by various balanced-budget plans, the public will let their elected representatives know that they will not accept further retrenchment in nondefense discretionary spending," Reischauer writes. "At that point, policy-makers will have to decide whether to raise taxes, cut defense and entitlement programs more, or live with larger deficits."



And so the options come down to the entitlements.

"Unless you're going to completely decimate everything else in government, you've got to look at entitlements, and sooner rather than later," says Demetri Koupounas, policy director for the Concord Coalition, a Washington-based public-policy organization that focuses on the federal budget.

Medicare is expected to go broke—exhausting its trust fund—soon after 2000, and Social Security could face the same fate 20 to 30 years later. So while immediate action is needed on Medicare, the problem with Social Security isn't as imminent.

Besides Social Security and Medicare, there are scores of other entitlement programs that could be ripe for reform or elimination. Many of them increase according to changes in the CPI and could be affected by revisions in that indicator.

Meanwhile, both GOP lawmakers and the president have suggested a tax cut, though in different forms and magnitudes. However, Reischauer says, "There's no great groundswell out in the public to cut taxes," and he opposes cuts, at least until the budget is balanced.

Koupounas says there might be a proposal for "very, very limited tax cuts that make sense in and of themselves, but they run against the feeling that we're all in this together." If there is any tax cut, he says, it should be phased in with budget cuts or come afterward.

Hodge of the Heritage Foundation says some tax cuts would be needed in a budget-balancing plan. "You have to cut taxes as well to temper the reduction of public spending with more productivity and growth in the private economy," he says.

What's at stake in deficit reduction is more than just balancing the budget and eliminating red ink. Paying for the deficit and interest on the $5.2 trillion national debt, which has been rising about $1 trillion per presidential term since 1980, has more serious consequences.

The heavy deficits have come at a time when savings by Americans have dropped. Net national savings (personal and public) amounted to nearly 12 percent of gross domestic product in the 1960s; that has dropped to under 4 percent in the 1990s. The decline in personal and public savings has diminished resources for the private sector to use in creating businesses and industries, generating jobs, and boosting productivity, and this in turn has brought slower growth in the U.S. economy in recent years.

Most experts agree that the key to balancing the budget is in reducing the scheduled increases in entitlements. And the sooner it's done, they contend, the better the results and the milder the impact on recipients. Congress is expected to make deficit reduction a top priority this year, but significant action must occur to head off budget trends that could spell doom for America's future. ■

The Federal Safety Net

Challenge: To enact and implement effectively the changes that are essential to preserve key programs that make up the federal safety net.

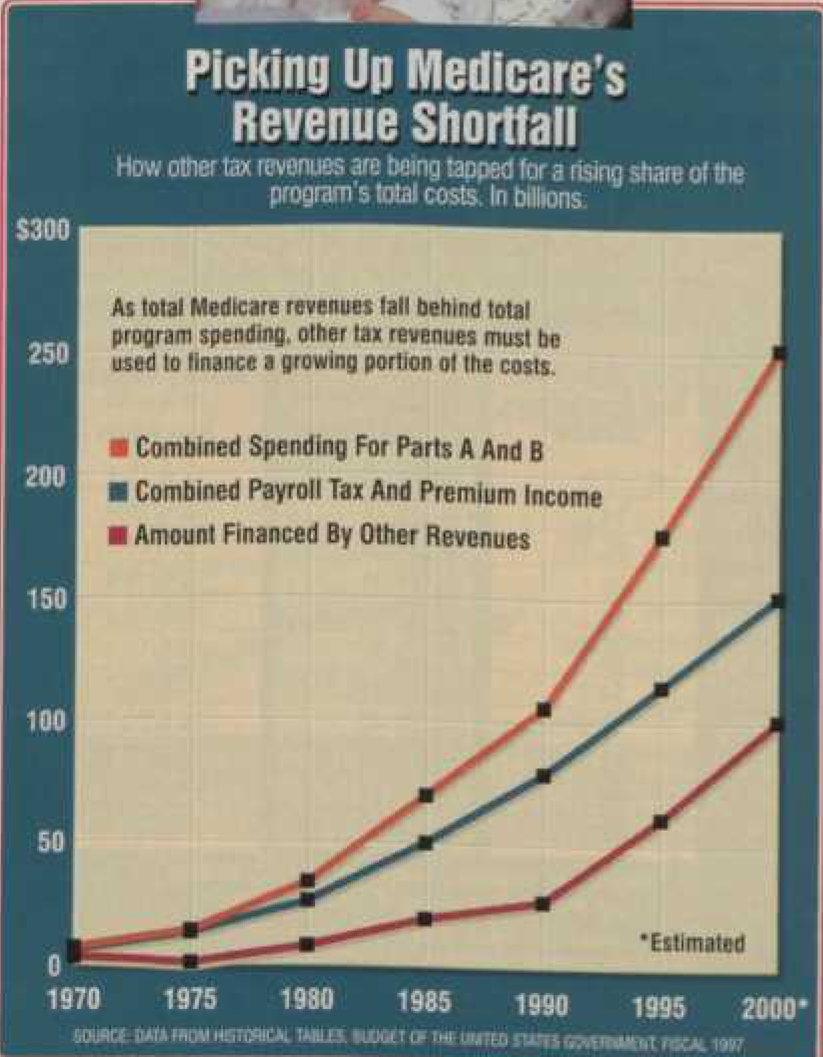
As 1997 began, the Medicare insurance premium for nonhospital expenses was raised to $43.50 a month, an increase of $1.80. At the same time, Social Security retirement and disability benefits went up 2.9 percent under an automatic cost-of-living adjustment. The wage cutoff for Social Security taxes was advanced $2,700, to $65,400, to finance the higher payments.

While those annual adjustments indicated a prudent commitment to the bottom line, they did little to stem the fast-growing financial problems of the two giant programs for the elderly; both of them are headed for bankruptcy, just on different timetables.

And while Medicare and Social Security are the most visible of the programs that make up the so-called federal safety net for Americans, two other areas—health care and welfare—also remain factors in the continuing clash over government responsibility for its citizens' needs.

As a new Congress and a new administration prepare to resume consideration of various aspects of the safety-net question, Medicare will be the top priority because it is already teetering on insolvency. Social Security's fiscal problems are greater in dollar magnitude, but there's more time to deal with them.

Congress has had little appetite for fundamental change in the nation's health-care system since the highly divisive clash over President Clinton's failed overhaul plan in 1993. Since then, health issues have been addressed individually, and that pattern is expected to continue in the new Congress.



Most of the discussion of Medicare financing centers on Part A of the program. Part A pays hospital costs and is funded by the 2.9 percent Medicare payroll tax—half paid by the employer, half by the employee. Part B is voluntary; it covers physicians' services and other nonhospital charges for those who have signed up and pay a monthly premium. That premium covers only about one-fourth of the actual cost of Part B services, however; most of Part B is financed from other federal tax revenues.

But business remains wary of what one expert on health-care policy calls "militant incrementalism." Neil Trautwein, manager of health-care policy for the U.S. Chamber of Commerce, says the business community needs to guard against efforts to enact piecemeal the costly, government-centered plan that the Clinton administration pushed four years ago.

Developments on welfare will be essentially a rear-guard action. The most sweeping change in the nation's 60-year-old federal system of public welfare was enacted last year.

The new law continues federal financing but gives states unprecedented freedom to structure their own programs.

Congress nevertheless faces demands for easing what critics call excessively harsh provisions, and the issue will be addressed again this year as various groups press for modification of the 1996 changes.

Ironically, those calling for easing the law include Clinton, who signed the 1996 measure and has cited it as fulfillment of his 1992 campaign pledge to "end welfare as we know it."

Here is the outlook for action on welfare and the other major safety-net issues:

Medicare

Medicare's problems are fiscal and, as a result of the 1996 presidential election campaign, more politicized than ever.

The financial troubles of the health-care insurance program for the elderly and the disabled have long been obvious. The Medicare board of trustees said in its 1996 annual report: "The Health Insurance program remains severely out of financial balance. As we have since 1992, we must report that the HI trust fund does not meet even our short-range test of financial adequacy."

Without prompt corrective action, the trustees said, the program will go broke shortly after 2000, "very quickly leading to a curtailment of health-care services to beneficiaries."

Medicare tax revenues (employers and employees each pay 1.45 percent on total wages) fell behind spending in 1995, and under the trust-fund concept, the Treasury made up the difference. Within five years,

even the so-called trust funds will be exhausted.

While the defenders of the current arrangement cite those funds as reserves available to keep the system solvent while solutions are worked out, there has been a long-standing debate as to just what those funds are and what they mean to long-term financing of Medicare and the retirement/disability programs.

By law, Social Security surpluses can be invested only in U.S. government securities. The government has long used revenue from those sales for general operations.

Critics say the trust funds constitute a fiction that hides the depth of the problem the system faces. The most recent *Green Book*, issued by the House Ways and Means Committee on programs under its jurisdiction, declares: "Each trust fund is actually an accounting mechanism; there is no actual transfer of money into and out of the funds. Income...is credited to [each] fund in the form of interest-bearing government securities. The securities represent obligations that the government has issued to itself."

The growing gap between Medicare income and outgo is being made up by payments from general revenues, which officially are redeeming the securities bought by earlier surpluses.

In a larger context, the search for ways to preserve Medicare has been complicated by the politics of the issue. Clinton and the Republican-controlled Congress have both proposed slowing the growth of benefits; they differ, however, only on the degree.

Nevertheless, Clinton claimed throughout his re-election campaign that the GOP was out to wreck Medicare. That strategy was considered a major factor in his winning Florida and Arizona, which have large retiree populations.

In his campaign, Clinton called for appointment of a nonpartisan commission to recommend ways to keep Medicare solvent. But the prevailing attitude among GOP congressional leaders since the election is that Clinton must now take the initiative on recommending steps to keep Medicare solvent.

In addition to proposals for allowing continuing increases in Medicare spending but at a slower pace, Congress will look at various suggestions that Medicare use the managed-care approach that is becoming more common in the private sector.

Under that concept, insured individuals select physicians and hospitals from a list of providers willing to perform services at rates less than those charged in the traditional system of unrestricted patient choice.

The Changing Face Of Social Security

These are some of the basic factors driving the Social Security system into a financial crunch. Figures for 2000 and beyond are estimates.

	Total Beneficiaries, In Millions*	Beneficiaries Per 100 Workers	Years Of Life Expectancy At Age 65 (Men/Women)
1950	2.9	6	12.8/15.1
1960	14.2	20	12.9/15.9
1970	25.1	27	13.1/17.1
1980	35.1	31	14.0/18.4
1990	39.4	30	15.0/19.0
2000	46.1	32	15.6/19.4
2010	54.3	34	16.1/19.7
2020	68.4	42	16.5/20.1
2030	80.9	49	16.9/20.5
2040	85.2	51	17.3/21.0
2050	87.9	52	17.7/21.4

*Individuals receiving retirement or disability benefits and dependent survivors of deceased workers.

SOURCE: THE 1996 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS

Any initiatives to ease Medicare's financial problems through higher taxes will be strongly resisted by business. Says the U.S. Chamber of Commerce: "When one considers that many small and medium-sized businesses already pay more in payroll taxes than income taxes and that payroll taxes must be paid regardless of economic conditions, it becomes clear why Medicare requires solutions other than tax increases."

Social Security

As with Medicare, the factors leading to the growing crisis in this most sensitive of all political subjects on Capitol Hill have long been obvious. Longer life expectancies keep the beneficiary population growing relative to the ranks of workers whose taxes finance benefits. (See the chart on this page.) The first of the 76 million baby boomers, the generation born between 1946 and 1964, become eligible for early retirement in just 11 years. The system as currently structured and financed cannot absorb the full impact of that demographic group.

Without fundamental changes, spending will start to exceed revenue from Social Security taxes in 2015. General tax revenues would be used to make up the difference. The Social Security Administration and its various boards of trustees maintain that fiscal Armageddon will come much later because of the trust funds.

Legislation enacted in 1983 to bring Social Security through an earlier crisis and build reserves for the baby-boom crush did in fact produce vast surpluses, but the federal government spent those surpluses immediately on operations unrelated to Social Security.

As is the case with Medicare, critics of the present financing arrangements for the retirement programs say the trust funds hold no more than IOUs from the Treasury Department and that benefits will eventually have to be paid with money raised from taxes or borrowing.

Around 2015, the Treasury will have to draw on general revenues or borrowing—or a combination of both—to replace the Social Security tax revenues that have been diverted to other government sectors.

The 1996 report of the trustees of the retirement and disability systems says that \$1.8 trillion will be collected in payroll taxes for those two programs in 2025 while benefits will total \$2.2 trillion.

But all of the \$437 billion shortfall must be covered by current revenues from income, business, and other taxes paid by companies and individuals in addition to their Social Security taxes.

Thus, when Congress starts to figure out how to keep Social Security solvent during the baby boomers' retirement years, it will have to factor in not only payroll-tax and benefit levels but also the need to find money to redeem the government securi-

ties that make up the trust funds.

Consideration of how to keep the retirement program solvent will involve:

- Proposals being advanced with increasing frequency for at least a partial privatization of the system. Under that approach, some income from payroll taxes would go into private-sector investments. That idea was prominent in the thinking of the Advisory Council on Social Security, which was established in 1995 to recommend ways to keep the Social Security retirement system solvent over the next 75 years. The 13-member panel split into three factions and was unable to agree on comprehensive recommendations, but two of the three groups favored some form of privatization, and a third presented it as a possibility. Key questions in drafting such a plan would include the percentage of income to be invested and the entity that would make investment decisions.
- The conclusion by an independent congressional commission that the Consumer Price Index, the basis for raising payments, overstates inflation by 1.1 percentage points, primarily because it does not recognize the extent to which price increases are offset by quality improvements or the ability of consumers to find lower-cost substitutes.
- A mix of higher payroll taxes and reduced benefits.
- Raising the retirement age for full benefits to 67 faster than scheduled under an existing timetable calling for gradual implementation by 2027. There are also suggestions that the retirement age be moved past 67.

Health Insurance

Last year Congress passed health-care reforms in small pieces. Two measures signed into law and backed by the U.S. Chamber made health insurance portable from job to job and restricted the ability of insurance companies to deny coverage because of pre-existing conditions.

This year the White House is expected to press for health-insurance coverage for children now lacking it and for subsidizing continued coverage for the unemployed under an existing plan in which they can avail themselves temporarily of the group-insurance rates of their former employer.

In addition, the AFL-CIO continues to list universal health-insurance coverage among its legislative goals. Such proposals usually carry requirements for employer financing of the coverage.

"In effect," Trautwein says, "there is a growing trend toward trying to adopt universal health care in pieces." At some point, he says, congressional Republicans who opposed such policies when they were presented as a package by Clinton will "stiffen their resolve" against their gradual adoption, and the various coalitions that fought the Clinton plan will regroup.

The Chamber, Trautwein says, is committed to "preserving an employer-based health-care system." That includes opposition to any new mandates and support of legislation to encourage private-sector actions to extend insurance coverage, he adds.

Such legislation is expected to be reintroduced in this Congress by Rep. Harris W. Fawell, R-Ill. In the last Congress, he introduced such a proposal, which would have allowed small businesses to join as purchasers of group health insurance free of state requirements for coverage.

Encouraging expansion of health insurance for employees of small businesses is critical to dealing with the issue of lack of such coverage, the experts say.

The Employee Benefit Research Institute (EBRI), a private, nonpartisan public-policy organization in Washington, D.C., notes that 83 percent of nonelderly Americans were covered by either public or private health insurance at some point in 1995, leaving 17 percent with no coverage at any time that year.

Trautwein says Congress should pursue policies that increase access to health insurance by controlling costs.

Welfare

When Clinton signed the 1996 legislation turning over the greatest share of responsibility for welfare to the states, he said he was endorsing the principal objectives of the reform measure. But he said at the same time that he would ask Congress to modify provisions that he considered too harsh.

The sweeping legislation ended 60 years of Washington-directed policy under which welfare was an entitlement—open to anyone who met the criteria. The measure gives states primary responsibility for fashioning their systems within requirements limiting the duration of welfare eligibility, establishing work criteria, and targeting a significant cause of dependency—out-of-wedlock births by teenagers.

For example, the House Ways and Means Committee's *Green Book* cites studies showing that 71 percent of the 1 million families added to welfare rolls from 1989 to 1992 had only one parent—in the overwhelming majority of cases, the mother.

The new law curtails the ability of unwed teenage mothers to establish their own households with public aid.

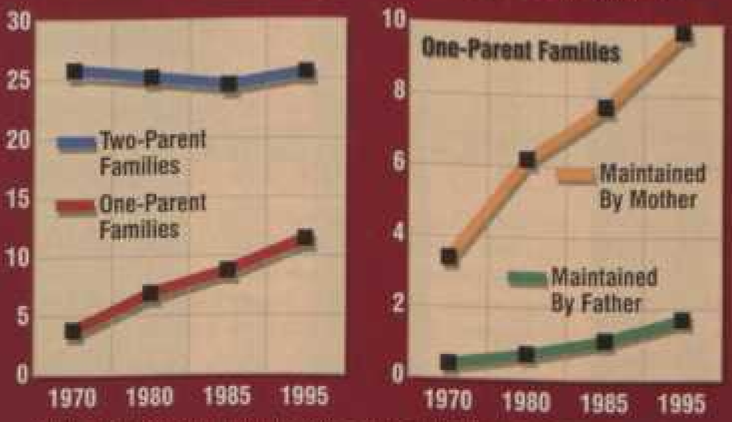
Clinton objected specifically to provisions curbing eligibility for food stamps and denying benefits to legal immigrants and said he would seek to eliminate those restrictions.

The measure also drew objections from welfare organizations, which want revisions even more sweeping than those sought by the president. But prospects for

Continued on Page 28

One-Parent Families Increase Sharply

Some of the causes of welfare dependency are beyond the reach of government programs, says the House Ways and Means Committee. The examples it gives include the fast growth of one-parent households with children under 18. Figures for each year are in millions.



SOURCE: *THE GREEN BOOK*, AN ANNUAL ANALYSIS BY THE MAJORITY STAFF OF THE HOUSE WAYS AND MEANS COMMITTEE OF AREAS UNDER THAT PANEL'S JURISDICTION

Regulatory And Legal Tangles

Challenge: To control the massive "hidden costs" to society of government red tape and of excessive litigation.

As demonstrated most recently by the Environmental Protection Agency's proposed rules related to the Clean Air Act, federal agencies in Washington continue to generate sweeping new regulations. According to the government's latest Unified Agenda of Federal Regulations, more than 4,500 new rules and regulations are pending in the federal pipeline.

The rules are proliferating despite President Clinton's attempts to "reinvent the government" and congressional Republicans' initial steps at regulatory reform.

For instance, EPA projections considered most realistic by the agency indicate that businesses and governments will spend $134 billion this year just to implement pollution-control regulations in the United States. That figure and its share of the gross national product have increased steadily since 1987 and will keep rising, according to the EPA.

EPA estimates the annual costs of its proposed new Clean Air Act regulations at $8.5 billion a year, once fully implemented, with public-health benefits of $120 billion annually. Critics argue that the costs will be far higher and the benefits far lower.

One of the most reliable sources of information on regulatory costs, the Center for the Study of American Business (CSAB), at Washington University, in St. Louis, estimates that the private sector will pay $688 billion in "hidden compliance costs" related to federal regulations in 1997—roughly 9 percent of the gross domestic product. By comparison, the federal budget deficit is expected to total $171 billion—just 2 percent of GDP—in fiscal 1997, according to the Congressional Budget Office.

Where does the $688 billion in hidden compliance costs go? The CSAB identifies three major areas:

■ **Environmental and Risk Reduction.** This category primarily involves public-health and safety rules issued by the Environmental Protection Agency (air- and water-pollution control; disposal of solid, hazardous, and toxic wastes; noise reduction) and worker-health and workplace-safety rules issued

Annual Costs Of Federal Regulation

(1995 Dollars, In Billions)

	Environmental And Risk Reduction	Price And Entry Controls	Paperwork	Total Regulatory Costs To The Economy
1978	$87	$415	$139	$640
1980	99	364	143	606
1982	100	326	144	570
1984	107	297	163	567
1986	118	272	165	555
1988	132	244	173	549
1990	151	236	206	594
1992	184	232	226	642
1994	206	228	215	649
1996*	232	224	221	677
1998*	250	221	229	700
2000*	267	218	236	721

*Estimated

SOURCE: THOMAS D. HOPKINS, CENTER FOR THE STUDY OF AMERICAN BUSINESS

by the Occupational Safety and Health Administration. Costs in this area—the largest and fastest-growing source of government red tape—will total an estimated $240 billion this year, or 36 percent of total regulatory expenses.

■ **Paperwork.** This cost is incurred mostly in the time and labor it takes businesses and individuals to comply with the tax code. But it also includes the costs of federal mandates imposed on state and local governments. This area accounts for one-third of all regulatory costs, or about $225 billion in 1997. U.S. businesses and individuals spend an estimated 6.8 billion hours a year on federal record-keeping and paperwork requirements.

■ **Price and Entry Controls.** These are the economic restrictions on product prices and labor markets, such as overtime, minimum wage, and Davis-Bacon (typically union-rate) wages. Although this slice of the regulatory pie shrank a bit in the 1980s because of energy and transportation deregulation, it is growing again and will run about $223 billion this year.

The CSAB points out that the total burden of federal regulation falls disproportionately on small businesses. In 1992, the average small firm with under 20 workers spent about $5,500 per employee to comply with federal regulations, compared with $3,000 per worker for a company with 500 or more employees. Manufacturing firms face the highest regulatory costs.

Various surveys—including one last year by the U.S. Chamber of Commerce—indicate that most U.S. businesses support the need for reasonable regulation to protect the environment and to ensure public health and workplace safety.

As economic studies in recent years have pointed out, however, the steady flood of new regulations does not necessarily help achieve those goals. Instead, red tape often simply forces companies to spend their resources on lawyers, insurance, and paperwork rather than on innovation and new jobs.

The power of regulation, notes Thomas D. Hopkins, adjunct fellow at the CSAB, "causes consumers and businesses to spend a good deal of their money in ways they do not freely choose, and the consequences of this coerced spending are a mixed blessing."

The first step in controlling the growing burden of regulation, Hopkins says, is to have the government "document the costs it is imposing on business." Currently, he and others say, "no comprehensive cost-accounting system exists for regulation," which makes it difficult to determine "who bears how much cost from regulatory compliance."

During the last Congress, some historic steps were taken to impose some controls on the federal regulatory process: Laws were enacted that require cost-benefit analysis to be performed on all proposed major federal rules; limits were placed on unfunded mandates that could be imposed on state and local governments; reductions were ordered for federal paperwork requirements; and small businesses won various new powers to defend themselves against unfair rules.

The 105th Congress is expected to consider many proposals to build on those actions. Initiatives are likely to include:

■ Better tracking of new regulations and cost-accounting of the regulatory burdens that government imposes on business and consumers.

■ Making sure that regulatory controls on the books are actually followed and enforced. The new paperwork-reduction requirements, for instance, already are not being met by many federal agencies.

■ Applying cost-benefit analysis to more federal agency rules and requiring greater use of sound scientific measurement and principles in government regulations.

■ Extending the use of petitions and reviews (so that impractical or ineffective regulations can be changed) and focusing more on compliance than on enforcement.

As the century draws to a close, both Clinton and the Republican-led Congress have recognized that the federal regulatory bureaucracy has become too big, too expensive, and too often ineffective. America's continued economic success in the next century will depend, in part, on controlling and reducing the tangle of regulations that hamper the nation's growth.

Two events last May dramatically illustrated the continuing battle over the nation's troubled civil-justice system:

■ The U.S. Supreme Court threw out as "grossly excessive" an Alabama jury's $2 million punitive-damages award against a car manufacturer for not disclosing it had legally repainted a new car. The court did not define what constitutes an "excessive" award, however.

■ Congress passed a bipartisan and scaled-down product-liability bill designed to limit just those kinds of excessive awards and frivolous lawsuits. But with the election just months away, and at the strong urging of trial lawyers, Clinton vetoed the legislation.

Underlying both of these events is the fact that Americans' love of litigation carries a price—to businesses and consumers alike, and to the nation as a whole. Some studies have estimated the cost of product-liability litigation at $80 billion to $152 billion a year. The result, such studies show, is higher prices for consumer products and services, less investment in new-product development, and job reductions.

Even though Clinton's stated reason for vetoing the product-liability bill was to "protect the interests of consumers," his action may benefit lawyers more than anyone else, some say. "Injured parties receive less than half of the money spent in product-liability actions," notes the Product Liability Coordinating Committee (PLCC), a coalition of business groups, based in Washington, D.C. "More than half goes to lawyers."

The cost of litigation even damages the nation's global competitiveness, it is ar-

Caseloads Rising

Civil Cases In U.S. District Courts

	Cases Filed	Total Caseload Per Judgeship
1991	210,890	325
1992	230,509	355
1993	229,850	354
1994	236,391	364
1995	248,335	383

SOURCE: ADMINISTRATIVE OFFICE OF THE U.S. COURTS

PHOTO: MATTHEW MCVAY-FOLIO, INC.

gued. The United States has 51 separate product-liability systems—one for each state and the federal government—while the European Union and Japan have adopted uniform, predictable product-liability laws, the PLCC notes. The Brookings Institution pointed out in a recent report that legal costs from tort cases equaled about 2.3 percent of the U.S. gross domestic product in 1991, more than double the percentage in most other developed nations. "Each year Americans spend on tort suits the equivalent of Sweden's entire economic output," says Brookings scholar Pietro Nivola. "The rampant legal wrangling continues to consume an extraordinary, and inordinate, share of GDP."

Both the complexity and the caseload of the U.S. civil-justice system contribute to the skyrocketing legal costs and long delays. While the 50 states have primary responsibility for civil complaints such as personal injury and property damage (tort cases) as well as product liability and medical malpractice, the federal courts also have jurisdiction in certain cases.

The latest figures show that more than 14 million new civil suits are filed in state courts each year, along with more than 248,000 new civil cases in U.S. District Courts.

While the states' civil dockets have declined slightly in recent years, civil suits in federal courts have been rising sharply. The Judicial Conference of the United States notes that federal judges face a growing caseload of civil suits, which are often delayed by the "heavy burden" of a rising criminal caseload as well.

But it is the rapidly growing rate of what the Supreme Court calls "grossly excessive" punitive-damages awards that most directly affects the economy. According to the American Council of Life Insurance, a Washington-based industry organization, this has created a "ripple effect" in the cost of the 98 percent of product-liability cases that are settled out of court.

Ultimately, this forces businesses to pass along their higher liability and legal costs to consumers in the prices of products and services. "The costs of excessive punitive-damages awards also affect society by raising prices for customers, lowering pay to employees, and reducing stock prices to shareholders," the council says.

Advocates of civil-justice reform have sought certain changes for the past 15 years. Many were included in a bill called Common Sense Product Liability Legal Reform, which Clinton vetoed last year. These are certain to be revisited by the 105th Congress.

Key elements of any bill that will have the support of reform advocates will include, among other changes, caps on punitive-damages awards for small companies; eliminating "joint and several liability" for noneconomic damages; shielding product sellers and suppliers from a producer's liability in certain circumstances; and establishing time limits for filing product-liability suits.

Consumer and trial-lawyer groups have vowed to again oppose any such changes, arguing that the burden of civil-justice costs should continue to be borne by business. The American Bar Association advocates long-term planning, greater use of alternative dispute resolution, and technology to make the legal system more efficient and less costly.

Since individual rights have always been a cornerstone of the American legal system, civil-justice reform will never be easy—as Clinton's veto demonstrated last year. But neither individual rights nor businesses benefit from the frivolous lawsuits, unjustifiable awards for damages, and untold billions of dollars wasted in U.S. courts each year. Both American society and the economy as a whole will suffer in the 21st century unless the civil-justice system is reformed. ■

Crime And Drugs

Challenge: To reduce the violent crime and drug use that are surging in new ways, especially among America's youth.

In the early 1990s, the incidence of violent crime and drug abuse in America began dropping significantly. FBI statistics show that violent crimes decreased by 5.9 percent in the four years ending in 1995, including a 3.2 percent decline in 1995 alone.

One big reason was demographic: The number of 15- to 25-year-olds, the group that commits the most violent crimes, declined significantly.

Local crime-control initiatives also have made a difference, as have local abatement programs such as efforts to get youths to spurn street gangs.

Similarly, arrests for drug-abuse violations dropped from a peak of 1.05 million in 1988 to fewer than 800,000 in 1991, the FBI says. A concerted public-relations effort by institutions ranging from the government to professional sports fostered a "just-say-no" climate about drug use.

Nevertheless, polls indicate that most Americans don't believe that these problems have eased. One reason is that fully one-third of the national decline in violent crimes reflects the decline in New York City alone; crime rates have actually risen in many other metropolitan areas. Also, news coverage of crime has grown more spectacular while entertainment-media depictions of crime have become more graphic.

In addition, troublesome new trends have been developing on the fringes. One is the growing number of "superpredators"—young hypercriminals who are committing acts of violence of unprecedented coldness and brutality. Another is the fact that, among all demographic segments, the crime rate is rising fastest among teenage girls—historically a very law-abiding group.

In addition, children manifesting the behavior problems linked to their mothers' use of crack cocaine during pregnancy are reaching school age, and this is "a potentially very aggressive population," according to Sheldon Greenberg, director of Johns Hopkins University's Police Executive Leadership Program.

PHOTO: CATHERINE KARNOW—FOLIO, INC.

Crime In The '90s

Percentage changes in number of offenses known to state law-enforcement agencies in 1995 compared with earlier years, by type of crime.

	Violent Crime	Property Crime	Murder And Non-negligent Manslaughter	Robbery	Burglary	Motor Vehicle Theft
1994 To 1995	-3.2%	-0.5%	-7.4%	-6.2%	-4.3%	-4.3%
1991 To 1995	-5.9	-6.9	-12.6	-15.6	-17.8	-11.4
1986 To 1995	+20.8	+2.9	+4.8	+7.0	-19.9	+20.3

SOURCE: FEDERAL BUREAU OF INVESTIGATION

In the realm of illegal drugs, signs of improvement have reversed themselves since 1991: Drug-related arrests reached a new peak of 1.14 million in 1995, attributable to plentiful supply, record-high purities, and record-low prices. What's more, drug use doubled among 12- to 17-year-olds in that time. The 1996 presidential campaign highlighted both issues.

Most disturbingly, experts have been stunned by the alarmingly fast rise in the use of heroin by teenagers, assisted by a popular culture that is ignoring the lessons of the 1960s by glamorizing the gaunt look of addicts.

What should America do about crime, drugs, and the synergistic problems they create? There are two distinct camps: Get tougher, and go easier.

To level the crime problem, the first camp urges methods such as building more prisons to end the revolving-door system that allows most criminals to serve less than half their sentences. About one-third of violent crimes, this camp notes, are committed by people who are already under some sort of court supervision. This side is encouraged by President Clinton's push for—and Congress' passage of—legislation that will add 100,000 officers to local police forces over the next few years.

As for drugs, the camp urging tougher measures argues for a return to a national commitment to constrict the drug pipeline to the U.S. as much as possible. "The government needs to face up to its responsibilities to more vigorously attack the supply," says John Walters, co-author with William Bennett and John DiIulio of the new book *Body Count: Moral Poverty ... and How to Win America's War Against Crime & Drugs.*

The other camp argues that a massive national campaign to extend compassion can do more than anything else to curb drug use, similar to America's massive effort against AIDS, which has made substantial progress in slowing the spread of the deadly infection. "We need intervention that focuses on folks before they're casualties and after they may have experimented once or twice," says Wayne Wieble, a University of Illinois at Chicago expert on drug abuse.

More controversially, Wieble and many others urge highly regulated legalization of narcotics use, which they argue would rob drug dealers of the economic incentive to use violence to protect their markets and would, in turn, slash the crime rate.

"The biggest obstacle to economic revitalization of the nation's cities is prohibition-related crime," says Eric Sterling, president of the Criminal Justice Policy Foundation, a research organization in Washington, D.C. "You can't fight that kind of economic engine with volunteer neighborhood watches."

The viewpoints basically converge on two prescriptions, however. The first is an increase in grass-roots, locally focused initiatives. Cleaning up minor crimes such as vandalism and prostitution fortifies a neighborhood's defenses against serious crimes, this consensus says. Another element in this positive equation is an increase in "community-based policing," not only focusing on a friendlier police presence in inner cities but also calling for greater accountability by precinct. Experts across ideologies agree that much of New York City's recent dramatic drop in crime

stems from the new community-based approach of its police force.

The other agreed-upon goal is to provide children with guidance that they can gain only through healthy, meaningful relationships with parents or other caring adults. "The overwhelming common factor that can be isolated in determining whether young people will be criminal in their behavior is moral poverty," Walters says.

Juvenile crime is at the top of the federal government's anti-crime agenda for this year, says Paul McNulty, chief counsel of the House crime subcommittee. Congress is considering legislation that includes "accountability-based sanctions" other than prison sentences to help curb juvenile crime, he says, and the White House is submitting its own ideas. Victims' rights and

gang violence also will gain currency in the 105th Congress, according to a forecast by the American Civil Liberties Union.

American business can have crucial roles in developing solutions to the simmering problems of violent crime and drug abuse. In many communities, companies are proving instrumental in local anti-crime coalitions. And entrepreneurial firms are providing many high-technology products and services that are allowing the dynamics of free enterprise to help take bigger and bigger bites out of crime. Business must heighten its involvement at the local level and maintain pressure on federal lawmakers to keep the crime and drug problems high on their list of concerns. ■

Education

Continued from Page 16

to economic expansion and technological breakthroughs that resulted in new products and put man on the moon.

Today, there is a similar sense of urgency. "The nation's public schools must better prepare our youth for an economy in which skills and knowledge increasingly determine success," says a report issued in January by the Committee for Economic Development (CED), a New York City-based public-policy group of business people and educators.

"To improve performance," the report adds, "we must create clear standards for educational outcomes with more effective accountability and incentive structures to help students, teachers, and school administrators raise achievement."

Business's stake in education is clear.

"Our nation's future economic security and our ability to flourish as a democratic society demand a generation of high-school graduates with solid academic knowledge, world-class technical skills, conscientious work habits, and eager, creative and analytical minds," three major business organizations, including the U.S. Chamber of Commerce, said in a recent statement in launching a new effort to upgrade schools.

Albert Shanker, longtime president of the American Federation of Teachers who in recent years has called for major education reforms, agrees that business has an important stake: "They're a customer, and a big one. They are the people who know what they need, in terms of education and skills, better than parents."

Shanker says reforms are needed in curriculum and discipline to make high-school students better prepared for work, technical training, or college. And he adds, "Without the heavy involvement of business, this is not going to happen."

The depth of the challenge to the nation's schools was underscored late last year with the release of the Third International Mathematics and Science Study by the International Association for the Evaluation of Educational Achievement. The study, which compared standardized-test scores of students in 41 countries, showed that U.S. students ranked just below average in mathematics and just above average in science. (See the chart on Page 16.)

At the same time, the National Education Goals Panel report for 1996 assessed progress on the 25 goals for improving public schools as set forth in 1990 by the panel of governors, state and federal legislators, and members of the administration. The goals covered areas such as student performance, teacher development, crime and drugs, and home life. The report concluded that improvements had been made in only five of the 25 areas, matters had grown worse in eight areas, and things remained unchanged in the rest.

Better education is needed not only in youngsters' classrooms but in the workplace as well. A new study by the American Association of Community Colleges finds that nearly 80 percent of employers say that new training is needed by at least one-fourth of their workers; some employers say it's needed by everyone on their payroll.

"This need continues to grow, as advancing technology, workplace innovation, and substantial changes in the composition of the work force require ongoing training," says the community-college study. In the future, it notes, "front-line workers will be expected to have essentially the same broad set of skills previously required only of supervisors and managers."

Although it's clear that education is a national problem, it isn't necessarily a federal problem. Washington provides only 7 percent of the nation's total spending on education at all levels. Thus, much of the solution must come from states and localities.

Indeed, the report from the community-college group says its members "should strongly consider work-force development as a core mission."

Tony Zeiss, who headed the study and is president of Central Piedmont Community College, in Charlotte, N.C., adds: "Retraining existing workers and transitional [between-jobs] workers is what's going to lead this economy into the next century."

The challenge is not just to improve education but also to ensure that educators know what else is required in the workplace: a positive attitude, a good work ethic, good communication skills, the ability to work with others, and an understanding and appreciation of diversity.

That's the thrust of a new report to be released soon by the Business-Higher Education Forum, a Washington-based group of 80 business leaders and academics. It finds that although college graduates are prepared well academically, they still need help in the campus-to-workplace transition and in learning in-

terpersonal skills necessary on the job.

The forum's report will call for closing the "chasm" between the business world and the academic world. "Faculty members in colleges and universities really don't understand what businesses are really saying," says Barbara Uehling, executive director of the forum.

The CED report suggests that the intensified involvement of business may be only part of the strategy for developing more-effective workers for the future. The CED says schools and employers must provide better counseling for students not going to college, and employers should base hiring decisions more on grades and on teachers' recommendations than on an applicant's possession of a diploma. Teachers should be held more accountable for student performance, the committee says, contending that school rules, union contracts, and tenure protections sometimes "unnecessarily dampen teacher initiative."

The AFT's Shanker is a longtime champion of public schools, but he says their teaching emphasis is too heavy on what he calls "process skills" and not heavy enough on content, such as English, history, math, and science. And he says teachers and schools should be able to remove disruptive students from the classroom.

Shanker's organization has a campaign, "Responsibility, Respect, Results: Lessons for Life," aimed at higher standards for conduct and achievement in public schools. It has been endorsed by a variety of business leaders, public officials, and educators.

Meanwhile, three major business organizations—the U.S. Chamber, the Business Roundtable, and the National Alliance of Business—recently joined in a pledge to push for better education by asking that high-school transcripts be part of job applications, demanding good schools where plants are located, and directing their philanthropy toward efforts to upgrade education.

The many efforts aimed at improving education constitute only a beginning, and continued education and training is almost sure to be a way of life for workers in the future.

The CED says in its report: "Traditional job security is becoming less common in today's economy, and workers must become more dependent on the employment security provided by their skills and adaptability."

Continued improvement in education is not only possible, it's essential. National security no longer depends solely on military might; it also depends on economic might. As more nations compete strongly, the work force that drives U.S. industry must be smarter, quicker, and more adaptable to maintain U.S. pre-eminence. ■

Trade Obstacles

Challenge: To open markets for U.S. goods, boost American exports, and improve U.S. competitiveness in foreign markets.

The trade pacts consummated over the past few years—particularly the North American Free Trade Agreement (NAFTA) and the latest accord of the 129-nation General Agreement on Tariffs and Trade (GATT)—were important, but they were only steps toward a larger U.S. goal of creating universal access to global markets.

The problem of getting other nations to change their protectionist domestic practices has broad implications.

As 1997 begins, many trade experts fear the United States may lose ground in its trade-expansion efforts. In recent months, the growth rate of U.S. exports has slowed. And U.S. exports as a percentage of gross domestic product lag behind those of many other developed nations.

At the same time, some U.S. companies may be losing the competitive edge required for success in markets once those markets are opened. American business is investing less in new technology and plants than it did 10 years ago, while companies in some other key competitor nations, including Japan, are stepping up their investments in research and development, according to Howard Rosen, executive director of the Competitive Policy Council, a bipartisan federal advisory commission in Washington, D.C. The commission represents business, labor, and the public sector.

Another issue causing increasing concern in the trade arena involves domestic laws and practices in other countries that adversely affect foreign exporters. Some countries, for example, have laws that allow domestic firms to fix prices, restrict output, or set up exclusive arrangements that prevent exporters in other countries from gaining access to domestic distributors.

Vital to creating U.S. export opportunities, many trade experts say, is for Congress to grant the president authority to negotiate trade deals that Congress would then approve or disapprove without amendment. Congress typically grants this so-called fast-track authority for a specified time only, and President Clinton has operated without it for about 18 months. Fast-track authority expired in 1995, and while Congress was willing to extend it, the administration insisted on an expansion as well as extension of its previous negotiating authority. That insistence led to a stalemate.

"Politically, you can't do a lot without it," says Ellen L. Frost, a senior fellow at the Institute for International Economics, a nonprofit, nonpartisan public-policy research organization in Washington. "It will be one of the looming issues in [Clinton's] second administration."

Fast-track authority is viewed by trade experts as essential to making any meaningful progress toward new or expanded trade deals. In particular, they say, such authority is essential if NAFTA—the pact among the United States, Canada, and Mexico—is to be expanded to other Latin American countries. Trade experts see expansion of NAFTA as critical to the United States' ability to compete because of the preferential treatment that NAFTA would ensure for participating countries by each other.

"Countries have figured out that the U.S. has a divided government, and they don't want to negotiate twice on a trade agreement and have to make concessions first to the president and then to the Congress," says David Hirschmann, manager for Western Hemisphere affairs at the U.S. Chamber of Commerce.

Consequently, governments are refusing to negotiate with the United States on trade issues, he says. "It's become an excuse for countries to say no. And while other countries are moving forward, the U.S. is sitting on the sidelines." That, he notes, means lost opportunities for business.

Extremely strong efforts will be required to win congressional approval of fast-track authority in 1997, experts say, because the fight will be tough. Some lawmakers object in principle to Congress' "sharing" of power with the White House. Others simply object to any new trade agreements.

When it comes to opening markets, China

is a high priority for the administration and American business. The issue is whether and how China should be admitted into the World Trade Organization (WTO), the entity established in 1995 to administer the GATT's international trade rules.

An advantage of bringing China into the WTO would be to make that country subject to the same standards by which other participating nations must abide. Specific standards and timetables have been set under the GATT for cutting tariffs, eliminating import quotas, establishing licensing requirements, lifting investment restrictions, eliminating subsidies, and protecting intellectual property—a particularly important area of concern to the United States. The standards and timetables differ for different types of products and services.

Many of the WTO's 129 members favor China's inclusion, and a major concern is that the entrance criteria will be relaxed to get China into the organization quickly. That could have serious implications, many trade experts believe.

"Traditionally, we held nations to precise standards to join [the GATT, now the WTO]," says Susan Ariel Aaronson, an economics historian and guest scholar at the Brookings Institution, a public-policy research organization in Washington. "It's a dilemma," she says. "On the one hand, you want China in the system; at the same time, you lose your ability to ensure that they're held to the highest standards that every other nation has had to meet." Significantly, she says, how WTO nations deal with China will set the bar for Russia, then Ukraine, and Saudi Arabia.

The problem of getting other nations to change protectionist domestic practices has even broader implications. "What were thought to be domestic issues have become trade issues," says Ellen Frost.

She cites as an example of the problem Japan's cartel system of vertical and horizontal business relationships that form a protected market for many of the nation's industries. "No matter how low tariffs are, if competitive policies aren't enforced, some companies can't be competitive there," she says.

Robert Z. Lawrence, a professor of international trade at Harvard University, favors an international competition agreement with enforcement mechanisms to address restrictive practices.

"There should be one set of rules," he says. "We need agreement with minimum standards that wouldn't require us to weaken our rules, but [would require] others to strengthen theirs." Such policies would be most effective in small markets where entry is difficult, and particularly in developing countries. The topic is on the agenda for future multilateral negotiations, Lawrence says, but progress is likely to be slow. There's not even consensus in the United States on how best to handle it.

To curtail the possible slide in U.S. competitiveness, says Howard Rosen, "we need tax incentives for businesses to make needed investments in research and development, and we need to be politically linked."

The trade specialists in the government deal only with the trade side, says Rosen, and the science and technology committees don't link up with trade discussions. "Where we differ from other countries is that they understand the linkage between [workforce] training, education, exports, and investment," he says.

"You can have all the trade agreements and open markets you want," he says, "but you have to have product to sell. If we don't invest in these things now, we could find ourselves as we were in the 1970s and 1980s, when we had obsolete vehicles that weren't competitive. This is a constantly moving target. You can't take your position for granted." ■

Trade As A Percentage Of Gross Domestic Product 1960-1994

Australia	15.7%
Belgium	58.8
Canada	24.0
France	18.8
Germany	22.8
Italy	19.1
Japan	11.4
Mexico	10.9
Switzerland	33.5
United States	7.6
All OECD Member Nations	15.6

SOURCE: ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT

Federal Safety Net

Continued from Page 21

any easing, whether along the limited lines suggested by Clinton or the broader changes sought by the welfare groups, probably vanished when voters returned Republican majorities to both houses of Congress.

Rep. Bill Archer of Texas, chairman of the House Ways and Means Committee, has already served notice that he will oppose any presidential attempts to "undermine and weaken" the new law. He says the failure of $4.5 trillion in welfare outlays between 1968 and 1994 to lift the core welfare constituency out of poverty demonstrated that family breakdown, not inadequate funding, is the root of the problem.

The outlook is for Congress to give states as much latitude as possible to implement the new law and to appraise the results before considering whether any parts of the new policy need reworking.

While health care for welfare and low-income individuals was not covered by the 1996 reform bill, the exploding costs of the federal-state program for such individuals—Medicaid—make it a high-priority candidate for review. The cost of this program has gone from $27 billion a year to $105.5 billion over the past decade alone, and the White House's five-year budget blueprint calls for continuing increases of $5 billion to $6 billion a year.

Why must America act now in determining how much of a safety net to provide for its population?

Because the present course of spending on such programs cannot be maintained. The share of federal spending for entitlements—benefits paid to all who qualify for them—may come as a surprise to many taxpayers: In the current fiscal year, about two-thirds of the federal budget—some $1 trillion of a total of $1.6 trillion—will flow to individuals as pensions, payments for health care, and welfare and other forms of income protection.

A bipartisan government commission on entitlements reported two years ago that if the growth of such payments is not checked soon, entitlements and debt interest will consume nearly all federal revenues as early as 2010, leaving nothing for defense, law enforcement, national parks, or any other government activity.

Since that bleak forecast, the problem has only worsened. NB

To order a reprint of this cover story, see Page 43. For a fax copy, see Page 5.

MARKETING

Capturing Customers With TV Retailing

The major networks linking retailers with television viewers are looking for small firms' products. Here's how to decide if selling by TV would work for you.

By Dale D. Buss

Mike Wood was a Berkeley, Calif., lawyer who wanted to help his 3-year-old son learn to read but couldn't find any toys for the task. Then he invented a phonics-teaching device, developed a prototype, and persuaded the Home Shopping Network to ply it on the air.

Now, after selling tens of thousands of the laptop-computer-sized devices on the TV retailing network at $35 apiece over the past two years, Wood has become a nonpracticing lawyer and budding entrepreneur. His company, Leapfrog LLC, posted about $12 million in revenues in 1996 from his line of various phonics-teaching products.

PHOTOS: © LINDA SUE SCOTT

Showing his teaching products *to TV audiences has generated dream-come-true sales results for Leapfrog founder Mike Wood.*

The Home Shopping Network "has been a great source of sales for us, but that's only one of the things this has done for our business," Wood says. "It's also been a great way for us to tell our story to a big audience that then generates further sales. And for every sale we make on the Home Shopping Network, we make some significant additional sales through normal retail channels."

Dream-come-true stories like Wood's are increasingly common for small companies as the Home Shopping Network (HSN) and the other major national companies that retail by TV widen their search for items to feed the new-product streams that are vital to their programming success.

It's no longer a medium open only to big companies or celebrity pitchsters like Ivana Trump and Priscilla Presley. "It's a powerful medium," says Jim Tobin, an official at the Michigan Jobs Commission, a state agency that helped another TV-retailing network, QVC, originate a week of programming from the state last fall. "We have people who had no distribution system at all who went on QVC and within minutes sold thousands of units," he says.

Each of the so-called Big Four TV retailing companies—HSN, based in St. Petersburg, Fla.; QVC, in West Chester, Pa.; Shop At Home, in Knoxville, Tenn.; and ValueVision, in Eden Prairie, Minn.—says that cultivating small-company suppliers has become a top priority.

And for good reason. TV retailers have a combined 158 million potential viewers every day (with considerable overlap) and countless hours of programming to fill. Competition has grown more intense as the number of households tuning in to home shopping has leveled off. So the shopping networks cannot afford to leave any stone unturned in their efforts to come up with interesting new products.

That's especially true because mass discounters have encroached on the networks' turf, stocking goods that previously were available only on the tube.

So the shopping networks have become more aggressive in trying to differentiate the wares they offer from what consumers can get elsewhere. And that is leading them to small, independent suppliers.

"We're constantly looking for new products to feed this machine, because we've got to reinvent it every day," says John Pinocci, vice president of product and event marketing for HSN. With about 69 million potential viewers, HSN is the industry's largest network. "That leaves us open to—and motivated to—having smaller vendors and manufacturers present goods to us," says Pinocci.

Adds Bill Lane, vice president of new-business markets for QVC: "New products and new categories are the lifeblood of any retail organization. What we've discovered is that lots of companies that have those things just aren't able to finance themselves or establish distribution. So we form a symbiotic relationship with them."

In fact, for the past two years QVC—which counts about 59 million potential viewers on cable systems around the country but has substantially higher revenues than HSN—has been the most aggressive retailing network at soliciting products from small companies.

In 1995, in an initiative called Quest for America's Best, QVC sponsored statewide trade shows to evaluate the wares of small companies. It then selected 20 small concerns from each of the 50 states to appear with their products in a series of three-hour shows aired from each state.

Last year, QVC pared the number of

states to eight, but it spent a full week on location in each of them. In QVC's program for this year, selected products from each state will compete for national TV appearances. Qualifying products must be in production and must retail for no less than $12.95.

The quest by QVC has made all the difference for Mark Scherr, a journeyman heating-systems technician, and his wife, Susan, who own Innovative Sensations Inc., in New Berlin, Wis. Nearly five years ago, the Scherrs developed a 17-inch-long plastic device that allows users to gift-wrap in a balloon any item that can pass through the device's 2½-inch-diameter tube.

Over more than two years, the company spent $50,000 on advertising the Pump-a-Present in craft and floral publications and other magazines, but to little avail. "The product sitting in a magazine just wasn't showing people what our product was all about," Susan Scherr recalls.

When the Scherrs heard that QVC was coming to State Fair Park in nearby West Allis, Wis., in March 1995, they realized it could be the opportunity they had been waiting for to show millions of people how Pump-a-Present actually worked. Though it was one of the last products that network buyers examined out of hundreds they saw at the one-day trade show, they loved it.

A few months later, Susan demonstrated Pump-a-Present on QVC's Wisconsin show, and the network's initial order of 6,000 of the devices sold out in just under two minutes—at $29 apiece. Producers asked her to come back a few more times over the next several months, and Pump-a-Present sold well each time.

"We sold 35,000 and did over $1 million in retail sales in just a few months compared with selling just 5,000 in the previous 2½ years," Susan marvels. "It's opened doors for us to get into Wal-Mart, Target, and ShopKo.

"And it's given us capital that we've invested in a new blow-molding process that will allow us to manufacture faster and cheaper, and we'll be able to get the price down below $20."

There is no hard-and-fast formula for becoming a success on TV shopping networks, but here are some of the ways that small companies have done it:

Offer items that lend themselves to this type of selling.

Typically, the products that make it onto the air are housewares, health-related items, collectibles, food, cosmetics, jewelry, and accessories. That's because of the audience. At HSN, for example, more than 80 percent of viewers are women, and they usually buy products for themselves. QVC estimates that its biggest audience is women 35 to 50 years old.

Products that generally don't get consideration, on the other hand, include toys and men's apparel.

PHOTO: © KRIS ERICKSON

Tube time: *TV made Susan Scherr's balloon-gift-wrapper a sales hit and opened new retailing doors.*

Wannabe items also must have at least two other attributes—"some value that consumers can grasp and a certain magic," according to Tom Roper, a senior buyer at HSN. "What's going to stop the remote? That's what we want to see."

QVC's Lane explains that this intangible quality "must be new, or solve a problem, or make people curious—or fascinated." Yet it must be somehow practical: "Just because it hasn't been invented before doesn't mean it's needed."

Karen Norris' self-tanning lotion fit the bill perfectly. Determined to eclipse the "inferior products out there that streak or blotch or smell," Norris quit her job as an executive of a managed-health-care company in Los Angeles, and she and her husband poured tens of thousands of dollars of their savings into developing a formula.

Three years ago, with the help of a chemist, they perfected Acapulco Sun. In November 1995, QVC sold 1,800 bottles at $13.75, not only sparking revenues but also launching Norris' company, Acapulco Sun, onto the procurement radars of several new distributors.

Price your product appropriately.

Almost all the products that make it on the airwaves are priced between $10 and $100. Mike Lesser, president of TV Direct, a Warren, N.J., firm that grooms vendors and their products for TV retailing, says many clients come to him with products that reasonably would retail for under $10, but he advises them to find "logical ways to add value" so that a reasonable retail price would be $15 or more.

Companies sell their products to the networks at wholesale, with the exact price being negotiable. The network then marks up that price, depending on the type of product and anticipated demand.

Generally, says Lesser, the networks' offerings are priced at an "everyday-low" level that is close to the regular price a discount store would put on the product but not a sale price.

Be demonstrative.

The best items are those whose benefits can be clearly demonstrated live and in real time. It also helps if the product owner or originator has a winning personality that can lend expertise and enthusiasm to the hosts' on-air sales pitches.

Bob Barnette and his product were perfect in these respects. While corny to some, his early 1995 presentation of the Vectra moisture-repellent spray that he invented made the spray one of QVC's most successful new products of the year from a small company.

On the air, he dipped a Vectra-treated tissue in boiling water, then pulled it out; it was bone-dry. Then Barnette stuffed his Vectra-covered silk tie in a glass of Coke; when he pulled it out a few seconds later, it was moisture-free. In just 7½ minutes, convinced viewers ordered 6,600 bottles of Vectra at $12 apiece.

"For '94, my gross sales were $219,000," says Barnette, owner of Atlanta-based Vectra Enterprises Inc. "But I finished 1995 with $750,000 in sales."

Hop over the transom.

The shopping networks are happy to send vendor kits to companies. Answer the questions and send the forms back along with a product sample to specified buyers for the networks, and if there's an interest, the buyers will call you.

HSN offers two additional ways to make an initial inquiry: Call to make an ap-

pointment with a buyer in St. Petersburg, or mail a homemade video to the network that clearly explains the product's "magic" as well as its value.

Persistence also can work wonders if a product originator is convinced that a network should be interested. In 1992, Donna Maas began pelting HSN with letters, phone calls, and samples of the metal-cleaning solvent she had developed with the help of family members and a chemist. Finally, the LaGrange, Ill., entrepreneur got an appointment with an HSN buyer—and a network appearance.

On her big day in 1993, Maas sold 17,000 tubes of cream at $13 apiece in one hour. Sales by her company, Maas International Inc., have totaled more than $500,000 over the past two years, she says, and two national retailers—Crate & Barrel, and Bed, Bath & Beyond—now sell Maas Polishing Creme.

Get invited to a QVC trade show.

In each state where QVC has had a special broadcast during the past two years, the network has worked with the state's commerce or economic-development agency to invite a few hundred companies to participate in its trade shows, where the prospective suppliers are screened.

The application process varies by state, but each state agency does its best to get the word out to potential attendees.

Companies that are invited to the exhibition get only a few minutes each to impress the swarms of QVC buyers that come up and down the aisles. Often, the network will invite a company right on the spot to make a future on-air appearance.

That's what happened to Robert Waldman. For several years, his tiny company in Long Beach, Calif., had been touting its pain reliever at consumer trade shows and conventions of senior citizens. But the easily demonstrable value of his product—and, perhaps, serendipity—came in handy the day he set up shop at a recent QVC trade show in California.

"When the vice president of marketing came through, he said he had a tooth problem or ache," Waldman recalls. "So we sprayed [the pain reliever] on a napkin and told him to hold it against his cheek. ... He immediately reacted positively."

Pick the right network.

All of the shopping networks will, if necessary, help small vendors devise packaging that will protect merchandise shipped out to fulfill on-air orders.

But the networks have different approaches to other things, and those approaches might determine which network is the best target for a particular small supplier. HSN, for example, sometimes advises would-be guests on how a product can be modified to meet the network's specifications, and the network might even become a financial or marketing partner. QVC, on the other hand, doesn't assist companies with the development or financing of products.

And one of the smaller networks might indeed be better for a first-timer. "We can look at a lot of start-up products that don't require as deep an inventory commitment because our audience is fewer people than QVC or HSN," explains Stuart Romenesko, a vice president of ValueVision.

Hire a consultant.

TV Direct or a similar consulting firm may be just what a small company needs to get over the hump. Typically, such firms get a percentage of TV-generated sales (TV Direct gets 12 percent, for instance) if they help a client nab a network appearance.

Anna Blangiforti swears by this approach. An equestrienne, she had grown frustrated by the lack of a good product to recondition and preserve saddles, harnesses, and other leather goods for riding. So she concocted her own formula, called it Leather Therapy, and in March 1995 made her first sale: $60. Soon Blangiforti began eyeing TV retailing to expand sales for her company, Unicorn Editions Ltd., in Oldwick, N.J. A friend told her about Lesser.

"I was trying so hard to show somebody how good my product was," says the 54-year-old Blangiforti, "but until then I had only been involved in the equine market. Mike was able to see how to develop the product for the electronic-retailing market because he'd been there."

A plain bottle of Leather Therapy would retail for less than $10 on QVC, Lesser reasoned, so he helped Blangiforti "add value" to her offering by making it a kit that included applicators and other related

Hot Items

Variety is the spice of TV retailing. Here's a partial list of products that sold out, or nearly sold out, their suppliers' inventories—and how long it took viewers to snap them up—during QVC's Michigan Week in September:

- 584 Powerake garden tools with attachments; five minutes.
- 1,384 furniture-repair kits; nine minutes.
- 775 pansy brooches; 10 minutes.
- 447 cans of fresh-roasted large cashews; 10 minutes.
- 1,495 sets of books on how to win at casinos; several minutes.
- More than 1,300 shoulder-mounted, plastic flashlight holders; several minutes.

products. He also believed that Leather Therapy could appeal to markets far beyond equestrian, so the duo set out to prove it with a video. They scoured flea markets for beat-up shoes, gloves, and suitcases, and then they prepared a video to show QVC not only how well the product worked but also how clearly hosts could demonstrate its benefits on TV.

They succeeded handsomely. Blangiforti and Leather Therapy appeared on QVC for 20 minutes in January 1996 and did so well that she re-appeared every several weeks throughout the year. Now, other customers ranging from the leather-coat industry to opera-prop curators are calling and asking for the product. And Unicorn Editions generated more than $250,000 in sales in 1996.

"Now I can pay for the advertising I need to grow the company, the finest saddles to use to demonstrate, and a color brochure instead of black-and-white so that the company can have a look I never could have afforded without being on QVC," Blangiforti says.

Be prepared for questioning.

Networks will want to know whether a small company really has or can produce enough inventory to satisfy the potential demand generated by an on-air appearance. They will also want to know details about a product's benefits, where the product is manufactured, the place from which it is shipped, how it was developed, and whether the owner has all necessary legal rights to it.

For their part, potential vendors shouldn't be afraid to ask questions as well, such as the specific audience for a potential appearance, the system for tracking sales, the network's merchandise-return policy, and how and when the network pays vendors.

Finally, owners should be their own devil's advocates before plunging in. "They need to be sure why they want to go on TV," says Michael Kokernak, a vice president of Shop At Home. For example, he says, "Our price points have to be lower than in the stores, and once the price point of your product goes down on TV, it stays there. So are you prepared to cut margins throughout your retail environment?"

Small-business owners are finding that even if their ambitions are modest, the TV retailing venue can change their companies—and their lives.

Dan Abeyda had been casting pewter figurines for about three years in his spare time away from his day job—servicing leather-working machinery—when he heard about a QVC trade show in 1995. The Pomona, Calif., craftsman surprised even himself by landing an order from QVC for 2,000 of his miniature circus trains, along with a network appearance to market them.

To produce the train sets in time, he worked 80 to 90 hours a week for the last few weeks before the show, assisted only by his brother-in-law and a temporary helper. He was nervous throughout his on-air stint, but the QVC hostess helped him by extolling the virtues of his foot-long collection of 18 castings assembled on a strip of leather.

The trains sold out fast, at $17 apiece. "I can't even imagine what it would have cost me in marketing to do what they were able to in a one-shot deal," he says. Better yet, the shot in the arm encouraged Abeyda to do more craft work—and less machinery repair. "I'm a little more selective now on my service calls," he says. "They've got to be a long-term customer." NB

Networking

Here are the four major TV retailing channels; the total of potential viewers in households they reach by cable, satellite, and broadcast; and addresses and phone numbers for obtaining vendor information:

■ Home Shopping Network Inc.: 69 million; P.O. Box 9090, Clearwater, Fla. 34618; (813) 572-8585, Ext. 4750.

■ QVC: 59 million; 1365 Enterprise Drive, West Chester, Pa. 19380; (888) 5050-USA (888-505-0872).

■ Shop At Home, Inc.: 20 million; 5210 Schubert Road, P.O. Box 12600, Knoxville, Tenn. 37912; (423) 688-0300.

■ ValueVision International Inc.: 13.5 million (cable only); 6740 Shady Oak Road, Eden Prairie, Minn. 55344; (612) 947-5200.

Say Cheese, And The Orders Pour In

It's 7:18 in the morning, but it's prime time for Wisconsin cheese maker Greg Schulte. The co-owner of Brunkow Cheese Co., in Darlington, is sitting nervously next to his wife, Darlene, under klieg lights in a wing of a resort restaurant in the town of Kohler. The room has been transformed for the morning into the studio of QVC, one of four major television shopping networks.

The Schultes are about to appear live on QVC and pitch the cheese spreads that their decades-old firm added to its product line five years ago.

Schulte already has overcome one scare: He arrived in a shirt with a product logo, thereby violating QVC's rule against displaying any logos except QVC's or those of the showcase products. A quick-thinking producer gave Schulte a QVC promotional T-shirt to throw on.

After a short promo for a teddy bear and another for a $139 pearl dinner ring, the Schultes go on the air. "Here we've got smoked cheddar, bacon, jalapeño cheese, and garlic flavor—that was a state-fair award winner," says Schulte, warming up to salesmanship as he follows the lead of a QVC host. "We only use all-real dairy products. Everything's natural."

Darlene Schulte picks up the chatter. "They're good to use in macaroni and cheese, fondue sauces, and broccoli-and-cheese soup," she says.

The voice of a viewer named Martha, calling toll-free from Virginia Beach, Va., comes next, and she tells the Schultes that she has "watched all week long waiting for something like this to come on."

Seven minutes later—after the QVC hosts have promoted the spreads' "delicate flavor" and "creaminess" and Greg Schulte has squeezed in a final appeal about the products' shelf life and freezability—the segment is over.

Orders for item No. L4251—at $19 for a set of five flavors—already have mounted to more than 250, according to QVC's on-screen tally. The Schultes depart, making way for a line of handcrafted mixing bowls.

Orders for the Schultes' cheese continue to come in, ultimately reaching 2,500 over the course of a few days, and processing them requires the help of some temporary employees. When the last of the orders have been packed and shipped, Brunkow Cheese calculates that it has sold 25 percent more cheese spread in a matter of a few days than it normally sells in a month.

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You're talking with your customer, answering questions and describing your products. He wants to see some printed information. You scribble his name and address on an envelope, and put a brochure in the mail. A few days later, you remember the client, fumble for the address and your tickler file reminds you to call back and follow up.

"What do you think of my products? Did you get my brochure?" "No."

He never got it. It got lost in the mail. It came to the wrong office. He thought it was junk mail and trashed it. Maybe you forgot to send it. It doesn't matter what excuse you use, the fact is that you lost a sale. In the age of fax and e-mail, you might as well use courier pigeons as the post office. Yet mailing printed material is business as usual for most business owners.

What about fax technology? If the client asks for printed information, you take his fax number, drop papers in the fax hopper, and he gets your material right away. That's better, but it's still old-fashioned.

There is a smarter way to get information to prospects. Consider this: You give your client your special phone number. The system asks what information he wants and requests his fax number. He keys in his fax number and hangs up. A few seconds later the prospect gets your printed information along with a menu of additional options. The menu can say "Extension 101 is a product price list. Extension 102 has information on our financing plan. Extension 103 is the specifications on our deluxe model." The customer then calls back for more details Right Now. Your customers can get the information they want, right now, right in their fax machine, or the fax machine of their boss. And it happens NOW. That's how MarketFAX delivers information.

A New Technology

MarketFAX is a new technology from Alternative Technology Corporation, Hastings-on-Hudson, N.Y. It combines new computer technology with voice cards, fax boards, and easy to use software to create a whole new type of information system. It's a better way to deliver information. It is instantaneous. It responds to your clients when their interest for your products are at a peak — *right when they first see your ad.* It gives your clients exactly what you want them to see. It's an entirely new service and it can work for you. It's easy for your clients to use, and changes how you get information into the hands of people who want it.

Here is an example: INC. Magazine planned to launch a new line of software products. Pressed for time, they chose MarketFAX to deliver a 10 question survey to customers from their in-house database. Using MarketFAX to tally the results, the survey quickly revealed that the market was willing to pay over *25% higher* than what was originally projected. "MarketFAX enabled us to establish the precise price point for our software products..." said Jan Spiro, Director, Product Group, INC. Magazine.

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OK, so it delivers information right now. It must be hard. NO. The best part of MarketFAX is that it is as easy for the owner to use as it is for the customer. The system is delivered as a complete package based on a personal computer, with a scanner, some specialized computer boards and amazing software. All you do is plug it in, scan in your documents and begin telling people how to get it. That's it. It's easy.

President & Founder Tom Kadala says "Savvy business owners are finding hundreds of new uses for this kind of fax response technology."

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ATC

FINANCE

SBA Microloans Fuel Big Ideas

By Susan Hodges

If there is one word that describes Karla Brown, it's "determined." In 1990, Brown found herself divorced, with a young daughter, a mountain of debt, and horrendous credit. Then complications from major surgery cost her her full-time job as a secretary.

Such adversity might have crushed anyone else, but to Brown, of Dorchester, Mass., it was pure motivation. By 1993, Brown, then 30, had found and left a part-time job, taking $70 from her last paycheck to start her own business.

Now, four years later, Brown is the proud owner of Ashmont Flowers Plus, a small Dorchester shop only minutes from the heart of Boston. In 1996 it racked up $100,000 in sales.

How did she do it? With plenty of perseverance—and a $19,000 "microloan" from the U.S. Small Business Administration. Says Brown: "If I can start my own business with $70 and the SBA, so can anyone."

The Microloan Program was begun in 1992 as a five-year pilot program (it is up for renewal this year). Its mission is to help people realize an American dream—to own a business and be self-sufficient.

"These loans are grass-roots capital meant to encourage economic activity at a level of society that hasn't normally been involved in entrepreneurial activity," explains Mike Stamler, an SBA spokesman in Washington, D.C.

Microloans range from $100 to $25,000, with the average loan of $10,000 paid back over about four years at an interest rate of 10.8 percent. So far, 42 percent of microloans have been granted to women and 39 percent to minorities.

Although microloans are targeted at those who might not qualify for traditional bank loans, Stamler emphasizes that the program is for everyone. Workers displaced by plant shutdowns and layoffs have used the loans to start their own businesses, and in some cases the loans have provided a way to get off welfare. Recipients include a woman who borrowed $450 to set up a hair salon in her home and a man who borrowed $25,000 to start a company providing occupational- and physical-therapy personnel to health-care facilities.

The Microloan Program is administered by 101 nonprofit organizations chosen by the SBA in 49 states, the District of Columbia, and Puerto Rico. (No agency has been selected in Wyoming.)

Says Stamler, "The only requirements are that the loans must be given to small businesses"—usually ones with $5 million or less in annual revenues—and that the money must be used for enterprises that are legal. Additional loan requirements and procedures are left up to the organizations that administer the loans.

Brown's story is illustrative of how the Microloan Program works. While recovering from surgery in 1990, she decided she wanted to work for herself. Unsure of what type of business she wanted to own, she accepted a part-time job to supplement her disability pay. By August 1993, she was ready to start her own enterprise.

"I went to the local [wholesale florist], bought two buckets of flowers, and took them to the subway station" in Dorchester, Brown recalls. "People laughed at me standing outside selling flowers; they thought I was crazy."

But soon they started buying. Men bought $2 roses on their way home from work, and the 50-cent carnations appealed to a variety of passers-by. In less than a month, Brown was earning enough to buy a steady inventory. Family and friends chipped in to help her pay living expenses.

Change And Growth

Two months later, the Massachusetts Bay Transit Authority sold the commercial rights to the subway station to a private corporation. Suddenly, Brown had to pay $250 a month in rent to the new owner for the space outside the station.

Desperate to make ends meet, she visited subway stations throughout Boston and saw that vendors operating outside them had wooden stands holding up to 40 buckets of flowers. Within days, she found someone to build her a stand, and she got credit from her wholesale florist so she could stock a larger inventory. "I thought this was going to fix everything," she says.

When her rent was increased to $550 a month, Brown moved her business into her home and began marketing to the community. But after two years of running a home-based business, she longed for a downtown location that would boost her visibility and her business.

Through a business acquaintance, Brown learned of the Jewish Vocational Service (JVS), a nonprofit, nonsectarian agency in the Roxbury section of Boston that is one of the organizations administering the Microloan Program.

To get a microloan, Brown was required by JVS to write a business plan that met the agency's loan standards. Unaware of the process, she applied for and received a $2,000 grant from Nuestra Comunidad, a Boston-based community-development corporation that provides technical assistance to small businesses.

But Nuestra Comunidad used the money to hire a consulting firm that gave Brown some helpful advice but not a viable business plan. By this time, Brown had re-

This story is part of a continuing series on ways that small companies can locate the financing they need to run their businesses.

Aspiring entrepreneurs who might not qualify for regular bank loans have a way to make their dreams come true.

The team *behind Ashmont Flowers Plus owner Karla Brown, seated, includes, from left, Paula Mannillo of the Jewish Vocational Service (JVS) in Boston; Manuel Martinez of Nuestra Comunidad; Ann Fisher of JVS; Ashmont Flowers' Yvette Anderson; Marie-Rose Romain Murphy, executive director of Codman Square Main Street, a business-development organization; Ashley McCumber of the Codman Square Health Center; Katherine Kottaridis of Boston's Department of Neighborhood Development; Lori Holliday of the Boston Empowerment Center; and Brown's mother, Patricia Brown.*

served a store on Dorchester's historic Codman Square, a cluster of buildings in a revitalized section of town. With her grand opening just two weeks away, Brown had no business plan and no loan.

Panic-stricken, she returned to Nuestra Comunidad, where Manuel Martinez, the organization's director of economic development, worked all night to help her produce a plan that met JVS's requirements. The following day, she applied to JVS for a microloan.

Because her business was scheduled to open before the loan could be granted, however, Brown asked for and got a $6,800 advance from the Codman Square Neighborhood Development Corp. The advance enabled her to open the store on time, and she repaid the advance when she received her $19,000 microloan.

Today Brown employs two part-time workers at the store, which specializes in exotic flowers. Many of her customers used to buy from her at the subway station. Brown has also contracted to provide flowers to several Codman Square businesses, and she is marketing to area churches.

Now, thanks largely to her SBA microloan, Brown is thinking of growth—perhaps even returning to her entrepreneurial roots: "I might expand by putting a pushcart at the subway station."

For More Information

To find the U.S. Small Business Administration microloan lender closest to you, call 1-800-8-ASKSBA (1-800-827-5722). Or look in the blue pages of your phone book for your local SBA office. You can also visit the SBA's World Wide Web site at *http://www.sbaonline.sba.gov.* NB

Susan Hodges is a free-lance business writer in Takoma Park, Md.

ds? Overcome adversity?
the brink of disaster?
98 Blue Chip Honoree.

The Blue Chip Enterprise Initiative (BCEI) program was started in 1990 to recognize small to mid-sized companies that went from adversity to success through dedication, innovation, and hard work.

The program is sponsored by MassMutual, the U.S. Chamber of Commerce, and *Nation's Business* magazine.

Judging is done by an independent panel of experts in enterprise. Many are from universities and colleges; others are from the business community.

Each year four Blue Chip Enterprises are selected from each state and are honored at regional luncheons. Look for this year's honorees in the March issue of *Nation's Business.*

From these state honorees, four are selected for national recognition in February at the U.S. Chamber's Annual Meeting in Washington, DC. The four 1997 national honorees will be profiled in the April issue of *Nation's Business.*

During the year, fifty of the honorees will be featured on "First Business," a weekday 30-minute TV program on more than 100 stations nationwide.

Each honoree receives extensive publicity, community recognition, and networking opportunities. They also receive coverage in *Nation's Business* magazine and a book published about each year's recipients.

Application requirements

Any for-profit business that has been in operation for at least three continuous years and that employs between 5 and 300 persons is eligible to participate. Independently owned franchises are eligible. All nomination forms require the signature of at least one of the company's principals.

Here are four easy ways to apply. ★ Look for the 1998 Blue Chip Enterprise Initiative application in the July issue of *Nation's Business.* ★ Call 1-800-FOR-BCEI to have an application mailed. ★ Ask your local MassMutual agent for more information. ★ www.nationsbusiness.org/bluechip.html

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BENEFITS

Small Firms' New Retirement Choices

The SIMPLE retirement plans require less paperwork than regular 401(k) and IRA plans but may cost more.

By Stephen Blakely

Since the beginning of the new year, small-business owners have been able to begin a new and supposedly simple kind of retirement plan: the Savings Incentive Match Plan for Employees. But evaluating SIMPLE's pros and cons isn't necessarily easy.

SIMPLE was approved by Congress in August as part of a political trade-off designed to include something positive for small firms in legislation that raised the minimum wage. The law, which took effect Jan. 1, permits companies with 100 or fewer employees to offer their workers two new types of tax-deferred retirement plans: a SIMPLE 401(k) plan and a SIMPLE individual retirement account (IRA).

The plans were designed to give small businesses a way to offer employees retirement plans that would cost less and have simpler federal reporting requirements than traditional 401(k) and IRA retirement plans. Compliance with Internal Revenue Service regulations is widely regarded as the chief factor boosting pension plans' administrative costs.

A SIMPLE Retirement Plan Comparison

SEPs are employer-funded plans. The other three categories shown here are salary-deferral plans. Conventional 401(k) plans can be tailored in various ways to meet a company's needs. T. Rowe Price's Century Plan is one example of how a 401(k) plan can be designed. Under federal law, the maximum compensation in 1997 for determining contributions is $160,000.

	SIMPLE IRA
Maximum Number Of Employees	100
Vesting Provisions	100% immediate vesting
Maximum Employee Deferral	$6,000
Employer Contribution Required?	Yes
Maximum Employer Contribution	Dollar-for-dollar match of employee deferral up to 3% of salary, not to exceed $6,000.
Employer Discretionary Contributions Allowed?	No
Distributions	IRA rules apply; funds taken out within two years are subject to a 25% early-withdrawal penalty.
Loans Allowed?	No
IRS Nondiscrimination Testing Required?	No
IRS Reporting And Disclosure Form 5500 Required?	No

SOURCE: T. ROWE PRICE ASSOCIATES

The new SIMPLE IRA plan replaces a plan previously available to small-business owners—the Salary Reduction Simplified Employee Pension, or SAR-SEP. Existing SAR-SEPs can remain in force; no new ones can be created.

The SIMPLE 401(k) plan is another option for small companies. If a small firm establishes a SIMPLE plan, however, it cannot have other tax-deferred retirement plans.

The Cost Factor

While the two SIMPLE plans clearly require less paperwork, financial experts caution that either arrangement could increase overall retirement-plan costs for any employer shifting from a traditional 401(k) or IRA. The reason is that the law also requires small companies to match their employees' contributions to SIMPLE accounts, which can cost the companies up to $6,000 a year for each participating employee, and to make employees fully vested immediately—that is, entitled to keep all of the funds put into their accounts.

In conventional 401(k) plans, matches paid by employers are voluntary, and employees typically have to stay with a company five to seven years to become fully vested. For companies with seasonal workers or high turnover, granting all employees full and immediate vesting under the SIMPLE plans could prove costly.

Similarly, companies that have had SAR-SEP programs and now turn to SIMPLE IRAs are likely to find their costs rising because they will have to make contributions—a requirement the employers didn't face under SAR-SEP rules.

"SIMPLE isn't all that simple," says Robert Eastwood, vice president for technical services at Actuarial Consultants, Inc., a Torrance, Calif., firm that designs and administers pension plans, including many for small businesses. "You do avoid all the reporting problems" of traditional 401(k) plans, he says, "but you also pay a high price" in both the required employer match and the immediate vesting.

For T. Rowe Price Associates, Inc., an investment-services company based in Baltimore, the price was too high. The $93 billion family of no-load mutual funds won't even offer a SIMPLE 401(k) plan "due to the additional costs and limitations of the plan," says Jeanette LeBlanc, the firm's retirement-plan manager.

For a typical 75-employee firm, LeBlanc says, a SIMPLE 401(k) plan would cost $7,200 a year more than T. Rowe Price's existing 401(k) Century Plan for small companies because of the mandated employer-paid match. "The overall cost to the employer would be lower in an existing 401(k) plan even though administrative costs may be higher," LeBlanc says.

IRAs Are Popular

T. Rowe Price and other financial-services companies, however, are bullish on the SIMPLE IRAs and are actively marketing a new IRA product under the program. "Our analysis shows that when you get above 50 employees, the existing small-company 401(k) plans make sense," says LeBlanc. "For less than that, the SIMPLE IRA is best."

At Fidelity Investments, the nation's largest mutual-fund company, only an IRA is currently available as a SIMPLE option. The Boston-based financial-services company would not say if it would market a SIMPLE 401(k).

Fidelity has three conventional 401(k) plans targeted at small companies, including one offered exclusively to members of the U.S. Chamber of Commerce. "We currently offer a 401(k) product for small businesses that's very similar to the SIMPLE 401(k)," says Camille Lepre, a Fidelity spokeswoman. "It's very effective, and thousands of small companies are using it."

John Hancock Funds, a Boston-based financial-services company, overcame initial misgivings and is now offering both IRA and 401(k) products as SIMPLE options. Ted Lavelle, first vice president, says Hancock was concerned that participants would be able to shift their SIMPLE IRA funds at will among any of the 6,000-plus mutual funds currently available, potentially increasing the company's administrative costs.

But Hancock was reassured by recent clarifications issued by the Labor Department and the IRS, which said employers will be able to designate—and keep—just one financial institution to manage its SIMPLE IRA accounts. "The employer will control the institution he will use" for SIMPLE accounts, Lavelle says, which will help keep SIMPLE IRAs within the designated family of mutual funds.

Some firms that are marketing SIMPLE 401(k)s are not overly optimistic about the product's appeal to small businesses. Jack Stewart, assistant director of pension services for the Principal Financial Group in Des Moines, Iowa, says he expects the SIMPLE 401(k) will have limited appeal and, as a result, "maybe less than 10 percent" of the firm's customers will use it. The Principal is among the top 401(k)-writing companies in the nation, and it ranks among the 10 largest companies in 401(k) assets.

A SIMPLE Background

Only 25 percent of employees in companies that have fewer than 100 people on the payroll are covered by retirement plans, according to the U.S. Labor Department, compared with 75 percent of employees at larger companies. Small employers say complex regulations and high administrative costs discourage them from setting up retirement plans.

Much of the complexity stems from congressional mandates designed to ensure that highly paid workers don't reap a disproportionate share of tax-deferred retirement benefits compared with benefits available to lower-paid workers.

Conventional 401(k) plans, for example, have complex "top-heavy" rules and salary-discrimination tests that allow owners and executives to defer only 2 percentage points more of their pay than lower-paid employees. Violation of these so-called antidiscrimination rules can result in fines or reduced contributions.

To encourage small-business owners to set up SIMPLE 401(k) plans, Congress exempted the arrangements from discrimination testing. But some observers don't think the incentive will work, partly because of the mandatory-contribution requirement and because the market has re-

SEP-IRA	SIMPLE 401(k)	401(k) Century Plan® (T. Rowe Price)
No limit	100	No limit
100% immediate vesting	100% immediate vesting	Employers may select vesting schedules; deferrals are 100% vested.
NA	$6,000	$9,500
No	Yes	No
15% of each participant's compensation or $24,000, whichever is less.	Dollar-for-dollar match of employee deferral up to 3% of salary, not to exceed $6,000.	No specific maximum, but total contributions may not exceed the lesser of 25% of compensation or $30,000.
Yes	No	Yes
IRA rules apply; generally a 10% penalty on withdrawals before the employee is age 59½.	401(k) rules apply on termination of employment, disability, death, and withdrawals before age 59½.	401(k) rules apply on termination of employment, death, and disability.
No	Yes	Yes
NA	No	Yes
No	Yes	Yes

sponded in recent years with new 401(k) packages with greatly reduced administrative costs.

Here are the major aspects of the SIMPLE program:

■ To be eligible to establish a SIMPLE 401(k) or a SIMPLE IRA, a company must have no more than 100 employees and cannot have another retirement plan available to employees simultaneously. Eligible workers must have earned and be likely to earn at least $5,000 a year.

■ Owners and workers can defer a percentage of their pay under either plan; the maximum deferral is $6,000 a year. Companies must contribute in either of two ways. One is to match each participating employee's contribution dollar-for-dollar, up to 3 percent of salary, with a $6,000 maximum match. The other method is to contribute the equivalent of 2 percent of every worker's pay to his or her account—regardless of whether the worker contributes any money; the maximum employer contribution under this method is $3,200 per employee.

The SIMPLE IRA, unlike the SIMPLE 401(k), permits a company to cut its matching contribution to 1 percent temporarily if the firm has an unprofitable year. The reduction cannot be made in more than two years of five.

■ All employee funds are 100 percent vested immediately. Current IRA and 401(k) restrictions, such as penalties for early withdrawal, are retained.

■ Owners and highly paid executives can defer more under SIMPLE IRAs than under regular IRAs—a maximum of $12,000 a year, rather than $2,000. SIMPLE 401(k) plans, however, have lower contribution caps—only $6,000 per person in 1997, while the maximum contribution to a conventional 401(k) is $9,500.

> **"Crunch the numbers. Do a straightforward cost-benefit analysis. Take some time to analyze it."**
>
> —John Kimple, Vice President, Fidelity Investments

Weighing Pluses And Minuses

Many financial experts say they expect SIMPLE plans will appeal to a particular type of company—one with a low payroll, no existing retirement plan, and a strong desire to provide its workers with some basic retirement benefits. To decide if SIMPLE is good for your business, they say, you should define your company's goals, look at the options, and compare costs.

"Crunch the numbers. Do a straightforward cost-benefit analysis. Take some time to analyze it," says John Kimple, vice president and pension counsel for Fidelity Investments. "What you're getting is freedom from the top-heavy rules, and that's a significant benefit."

Regarding 401(k) plans, T. Rowe Price's LeBlanc suggests that small-business owners pay special attention to the costs of having to match their workers' contributions under SIMPLE, compared with the expenses of a conventional 401(k) plan. "Small companies have to look at this [SIMPLE] and decide if they can afford it," she says.

John Hancock's Lavelle adds: "What the sponsor needs to do is sit down with a calculator and figure out which is more expensive: Do I buy product X or product Y? It's a decision that business owners go through every day." NB

HEALTH

How Exercise Can Pay Off

Physically active employees can mean a healthier company—in more ways than one. Here's how you can encourage such activity.

By Michael Barrier

Even moderate amounts of regular physical activity can bring definite health benefits, by reducing the risks of heart disease, high blood pressure, diabetes, and other ailments. That was the gist of *Physical Activity and Health*, a report last summer from the office of the U.S. surgeon general.

For business, the implications of the report are clear: Encouraging physical activity can yield concrete gains in the form of lower health-insurance costs and improved employee performance.

Many large companies got that message long before the report was issued. In 1991, a study at Steelcase, an office-equipment manufacturer, found that participants in a corporate fitness program had medical-claims costs 55 percent lower over a six-year period than did nonparticipants.

Such figures, multiplied many times over, lie behind the fitness centers and exercise programs that many large companies now offer their employees as part of their wellness programs. A 1992 government survey found that more than two-thirds of companies with more than 250 employees had fitness programs of some kind.

When it comes to small business, though, the picture is much cloudier; there are no figures for companies with fewer than 50 employees. "We're not really sure what's happening among the small-business population," says David Hunnicutt, president of Wellness Councils of America (WELCOA), a nonprofit health-promotion organization based in Omaha, Neb.

PHOTO: T. MICHAEL KEZA

Health promotion *can lead to bottom-line benefits for small firms, say Brenda Loube, left, and Sheila Drohan, whose company runs fitness centers for corporations.*

When a small business does embrace an exercise program, though, the results can be as impressive in their way as the figures from a large corporation such as Steelcase. For example, the Kearney Orthopedic and Fracture Clinic, in Kearney, Neb., with 35 employees, began a wellness program six years ago. "We concentrate a lot on exercise and low-fat eating," says Deb Lundeen, a registered dietitian who is the clinic's wellness director.

The clinic began to see financial gains within two years, Lundeen says, through a slowing of the rate of increase in its insurance rates. By 1995, she says, "our [health-care] usage decreased so dramatically that we were able to go self-insured."

The clinic offers wellness services to other small businesses in the Kearney area, but "we concentrate the majority of our energy on our own employees," Lundeen says. Other companies tend to think about the cost of such a program rather than the benefits, she says: "It's hard for employers to see how it's going to benefit them in the short term."

In other words, to many small-business people, fitness programs can look like just another employee benefit. Brenda C. Loube, president of Corporate Fitness Works, a Gaithersburg, Md., firm that runs fitness centers for large companies in five states, says that small businesses often look at health promotion in terms of "employee relations, employee morale. Large corporations are looking to control costs."

But focusing on preventive measures such as exercise "is no different than projecting the finances of your company and planning ahead," Loube suggests. "How much money are you wasting on sick leave and absenteeism? How many dollars are you willing to put into prevention to affect those high-cost areas that right now you're just letting happen?"

Even those small companies that are convinced of the value of exercise may have trouble reducing that value to figures. Michael R. Davis, a principal of Bergmeyer Associates, a Boston-based architectural firm with about 85 employees, can't quantify the benefits the firm may have realized from subsidizing employee memberships in Fitcorp, a local chain of fitness centers.

"I've been trying to encourage our corporate accounting department to see if there isn't some way we can use it to save us money on our insurance," Davis says, "but I think that's like No. 18 on a list of 20 for them to do."

However interesting such hard evidence might be, no astute small-business person is going to wait on it before encouraging employees to become more active. The debate is over, the returns are in: Exercise pays off, for companies and workers alike. "Most companies know now, from everything that's out there, that wellness pays," says Sheila I. Drohan, Corporate Fitness

Works' CEO. "They're going to get that investment back."

The only question is how to encourage physical activity most economically and effectively. Some pointers:

Offer as many alternatives as possible.

Small businesses ordinarily can't provide fitness centers on their premises—but they can encourage their employees to join health clubs, by arranging for discounted memberships.

A small firm's commitment to exercise should go far beyond encouraging health-club memberships, though. Only about one-quarter of Bergmeyer's employees take advantage of the fitness-center membership subsidy, Davis estimates, and only about half of those, perhaps 10 people, use the facilities more than three times a week.

In other words, you have to offer attractive alternatives to the many employees who won't go to health clubs. You can seek out community groups such as walking clubs or bicycle clubs, or suggest that employees set up such clubs themselves. You can stimulate awareness of how beneficial even modest physical activity—gardening, for example—can be.

> **Many people need encouragement to enter an exercise program. It should be promoted in the workplace.**
> —Michael Parent, Fitcorp

Once you have identified a variety of ways employees can get more exercise, you should go out of your way to urge them to seize those opportunities. Simply making an announcement at a staff meeting or putting a poster on the bulletin board isn't enough. Employees are always quick to detect insincerity or lack of real interest.

Michael Parent, senior vice president of Fitcorp, says many people need help and encouragement to enter an exercise program. "The reality is," he says, "many people aren't exercising today, and they aren't ready to exercise. You need to go to them in their workplace and provide health-promotion programs."

Classes explaining the benefits of physical activity are "a beginning," Brenda Loube says, "to help people become aware of their own lifestyle."

If you decide to subsidize health-club memberships, you should seek out a high-quality club that will come to your workplace and, as Parent says, "develop relationships on-site with employees who aren't ready to exercise today."

Look for free services in the community.

Often, WELCOA's Hunnicutt points out, state and city health departments can provide outreach services—classes and the like—at little or no cost. Similarly, he says, "there are community health screenings; there are public walking trails." In other words, there are many ways to teach employees about the benefits of exercise.

Offer prizes for becoming more active.

You can provide evidence of your own belief in the value of exercise by offering prizes to employees who increase their physical activity. The most powerful incentives, Hunnicutt says, are paid time off and money, but other prizes can be effective, too—fitness gear, perhaps, or movie passes.

Don't worry too much about locking yourself into a costly, long-term commitment. In the first two years of the Kearney clinic's program, Lundeen says, prizes were "extremely valuable," but now, "I think the majority of them would still do it. The comment I get is, 'I feel so much better.'"

Ask your employees to share the cost of fitness.

If you pick up the entire tab for your employees' membership in a health club, you'll probably lower the odds that they'll use it. "We usually say that it's better to have the employees paying something," says Drohan, "because then they tend to have a vested interest and use it more."

Find ways to get family involved.

Getting spouses and children to take part can transform what might otherwise be regarded as drudgery into an enjoyable family activity. Many kinds of physical activity—bicycling, hiking—can be indistinguishable from simple fun.

Think about fitness when you're renting.

Corporate Fitness Works manages one fitness center in Bethesda, Md., for an office-park developer whose 30 tenants have access to the center as an amenity. "We certainly use it as an attraction" to potential tenants, Drohan says.

Once an exercise program—whatever its shape—takes hold at your firm, there's a good chance that it will be self-perpetuating. Many employees, once they discover the benefits of exercise, will be reluctant to let go of them.

"Exercise is a great remedy for people who are overweight, people who want to quit smoking, people who are stressed out, people who are tired and don't seem to have a lot of energy," Drohan says. "Just getting active is a great remedy for a lot of things." NB

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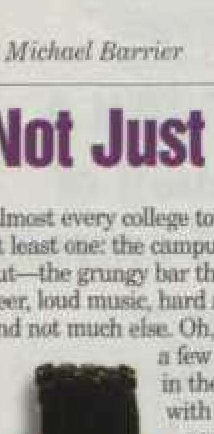
Free-Spirited Enterprise

By Michael Barrier

Not Just An Ordinary Joe

Almost every college town has at least one: the campus hang-out—the grungy bar that offers beer, loud music, hard seats, and not much else. Oh, maybe a few T-shirts in the corner with the name of the establishment on them, but that's about it. Eskimo Joe's, in Stillwater, Okla., started out that way in 1975. Stillwater is a pleasant town of 40,000 or so that is home to Oklahoma State University. Joe's has since mutated into something very different, more so in size—it is roughly 10 times larger than its original 900 square feet—than in character, although it is now as much a restaurant as a bar, serving lots of burgers and such.



Many things about Joe's, which is a few paces from the university campus, are on a larger scale than one would normally associate with a "jumpin' little juke joint," as Joe's calls itself. One figure that owner Stan Clark won't talk about is just how many dollars are spent at Joe's every year, but it's safe to say it's a lot. Otherwise, the place wouldn't need to employ about 200 people, most of them part time.

And then there are the T-shirts. You don't buy them in the bar anymore. Instead, you go next door into a gleaming store called Joe's Clothes World Headquarters, which opened in 1987 in a converted grocery store. There you can buy not only an Eskimo Joe's T-shirt in any of 14 colors but a whole lot of other stuff—casual clothes of many kinds, $25 ties, golf balls, a screen saver for your computer, and on and on, 550 items in all.

You can pay for everything with your Eskimo Joe's Visa or MasterCard; or, if you're calling in your order from Eskimo Joe's mail-order catalog (with Miss America of 1996, Shawntel Smith, an Oklahoma girl, on the cover), you can use your Eskimo Joe's prepaid phone card. Simply dial 1-800-256-JOES (1-800-256-5637).

Clothes and other such items now account for about 70 percent of total revenues at Eskimo Joe's. Appearing on all this merchandise are Eskimo Joe himself, a cartoon Inuit with a grin toothier than any since Jimmy Carter in his prime, and Joe's dog, Buffy.

The idea behind the name was to emphasize how cold the beer was. But what made the name click, Clark believes, was combining it with a logo depicting Joe and Buffy.

"I just fell in love with it," Clark says of the logo, which was designed by a freshman commercial-art student at OSU. "I loved the name from that day forward."

Eight years after the bar opened, Joe and Buffy "came out of that circle," Clark says. That is, they began appearing not just in the logo but also in other roles—flying biplanes, flipping burgers, singing with a rock band—on menus, posters, and clothing. "From a marketing standpoint," Clark says, "Joe can do anything any Disney character can do. That's really our vision for him; he is our marketing man."

There might seem to be a question about Joe's marketing prowess in this age of political correctness, when the very word "Eskimo" has gone out of favor; a few Native Americans have in fact complained to the media.

Clark says, though, that no complaints have ever been directed to him: "I guess we've just been blessed in that respect."

So what is it about this place that makes Oklahomans love it so much? (It is overwhelmingly an Oklahoma phenomenon; Clark estimates that about 80 percent of the 175,000 names on his mailing list are Oklahomans.)

If there's any one secret to Eskimo Joe's success, Clark believes, it's the owner's own enthusiasm for the business—he manifestly has what he calls "a hospitality personality."

Because Joe's is in a college town, he notes, there's a built-in turnover in his clientele. When a place is as popular as Joe's, that means lots of missionaries spread the word after they graduate. It's been spread even to the White House. When President Bush delivered the commencement address at OSU in 1990, he mentioned what Clark calls "our most infamous item": cheese fries. That's right, french fries covered with melted cheese.

"He put this dish on the map," Clark says. "We sold a few cheese fries before that, but after that ceremony, this place packed out, and everybody ordered cheese fries. We didn't have enough china in the building to serve that many cheese fries."

As we can testify, the cheese fries are pretty darned tasty. Try them with sweet-pepper bacon on top, and you, too, may become a missionary. NB

SMALL BUSINESS TECHNOLOGY

Delivering The Whole Package

The latest software "suites" help business owners perform a wider range of tasks without having to become computer experts.

By Tim McCollum

PHOTO: ©DOUG WILSON—BLACK STAR

A software package *helped masonry-company owner Richard Rhodes and his wife, Pamela, the firm's chief designer, complete this garden walk for Philip Condit, president and chairman-elect of Boeing Co.*

The elaborate fountains, monuments, statues, and walls constructed by Seattle-based Rhodes Masonry may be set in stone, but getting those jobs done requires owner Richard Rhodes to be flexible and versatile. Every business day there are clients, suppliers, and employees to communicate with, paperwork to complete, and income and expenses to track. If it weren't for his trusty computer-software tools, says Rhodes, he might spend more time doing mundane chores than running his architectural-masonry business.

Rhodes uses a package of tightly integrated software programs, the Small Business Edition of Microsoft Office 97, to boost his productivity. Published by Microsoft Corp., of Redmond, Wash., this "suite" of programs consists of word-processing, spreadsheet, desktop-publishing, Internet browser, and mapping programs.

The new software package, Rhodes says, is making it easier than ever for him and his 37 employees to complete office work, yet it didn't require the nonproductive learning time generally associated with the adoption of new software. That was because this and other editions of Office 97 feature technology that automates common tasks and helps users solve problems.

"We don't have time to learn software," says Rhodes. "We're no good at it. We're real good at what we do. But we don't want to become computer experts in order to use our software."

Rhodes Masonry uses Office 97 to write letters, keep up with accounts, send electronic mail, schedule projects, publish promotional pieces, and plan delivery routes. Rhodes says the feature he likes best is that the new version of Office has made contact-, task-, and communications-management its centerpiece through Outlook, a program that functions much like an integrated, computerized version of the traditional office Rolodex, bulletin board, and in-box/out-box.

Software suites such as Office 97 have become popular in businesses of all sizes, in part because they cost only a fraction of what their component programs would cost if purchased separately. According to PC Data, a software market research firm in Reston, Va., 75 percent of word processors and 85 percent of spreadsheet software now are purchased by companies as part of software suites.

In addition to acquisition-cost savings, software suites can be easier to use because all of the individual programs look and feel the same to the user. The suites also make it easier to move items from one program to another. Still, many small businesses prefer to purchase stand-alone programs. For some, it is a matter of purchasing only the programs they need. For others, it's a desire to buy the top-rated or most economical individual program for a task regardless of the manufacturer.

The major software-suite vendors are hoping to attract increasing numbers of these stand-alone buyers with their most recent products by adding even more capabilities at no additional cost. Here is an overview of the offerings from the three dominant suite publishers:

Corel Office and Corel WordPerfect Suite

Corel Corp. (1-800-772-6735), of Ottawa, offers two suites. WordPerfect Suite 7 features Corel's recently acquired WordPerfect word-processor, Quattro Pro spreadsheet, and Presentations graphics programs, along with the company's own CorelFlow charting and ClipArt programs.

Added to the mix by Corel are Envoy, an electronic-publishing utility from Novell Inc., and Starfish Software Inc.'s Sidekick information-management and Dashboard desktop-management programs.

Corel Office Professional includes those programs plus the Netscape Navigator World Wide Web browser; Paradox 5.0, a relational database from Borland International Inc.; Corel InfoCentral, another information manager; and GroupWise, e-mail software by Novell.

With such a wide variety of software from

Separate But Equal To The Task

Although the offerings from the three major vendors of office software suites have increased in breadth and capability, some of the most useful productivity programs still are stand-alone products. These include contact managers and personal information managers for keeping track of suppliers, customers, and appointments; database software; and basic graphics programs. The following software can help small businesses fill their productivity toolboxes. (Unless otherwise indicated, all are available only for the Windows 95 operating system.)

Contact Management

Act!, Symantec Corp., 1-800-441-7234: This popular contact-management software has been upgraded recently to include new telecommunications- and data-management features. Act! users can now dial telephone numbers directly from the contact record using their PC's modem. They can also place World Wide Web links into contact records; clicking on the link will launch a Web browser and connect to the contact's Internet site.

A new data-synchronization feature updates contact records on computers connected by a network. Users can also attach letters and documents created in Corel WordPerfect or Microsoft Word to records through a direct link in the command bar. Act! retails for $199.95.

GoldMine, GoldMine Software Corp., 1-800-654-3526: Like Act!, the latest version of GoldMine provides some Internet-related capabilities and useability across a company's computer network. GoldMine's basic contact-management function is built on top of an easy-to-use database that gives users quick access to contacts, document attachments, and other information.

The calendar function allows users to schedule multiple activities at a single time or over several days. Internet capabilities include the ability to send electronic mail from a contact record and to import and process contact information from remote users and Web sites. GoldMine can also import entire Act! databases. GoldMine retails for $295.

Janna Contact Personal, Janna Systems Inc., 1-800-268-6107: This program's strengths are its simplicity, speed, and flexibility, allowing users to customize what they see and use. Though it lacks the Web-related features of some competitors, the program includes a wide range of features for managing contacts, documents, time and communications. Janna Contact Personal is priced at $49. A trial version can be downloaded from Janna's World Wide Web site: *http://www.janna.com.*

Data Management

AltaVista Search My Computer PX, Digital Equipment Corp., 1-800-336-7890: This is the tool for people who often misplace important documents on their PC. AltaVista Search My Computer PX helps users locate documents using the same search technology that is used by Digital's AltaVista World Wide Web search service, which helps people find documents on the Internet.

ILLUSTRATION: GEORGIA LEIGH McDONALD

The software automatically builds an index of the contents of all documents and files stored on a PC or computer network. Users can then search for files using their Web browser by typing in key words or phrases, and then open those files by clicking on the entry with their mouse. AltaVista Search My Computer PX retails for $29.95 and can be downloaded from *http://altavista.software.digital.com,* Digital's Web site.

FileMaker Pro, Claris Corp., 1-800-544-8554: Ease of use makes FileMaker Pro a good choice for small businesses that need a full-strength relational database program. The software has tools that lead users through the creation of input screens and database tables that ordinarily would require database-programming skills. FileMaker also automates the process of entering, managing, and updating data from multiple sources.

Users can generate reports incorporating charts, graphics, and video, and can prepare mass mailings quickly using its mail-merge feature. FileMaker Pro is available for the Apple Macintosh in addition to Windows 95, and retails for $199.

Helpful Tools

ActiveOffice, Software Publishing Corp., 1-800-644-7759: ActiveOffice is a graphics utility that allows users to incorporate art and graphics elements easily into Microsoft Office programs.

The software works as an add-on to Office. Users launch it by clicking on an ActiveOffice button on the tool bar of any Office application. They then highlight the text or numbers in a document and pick the appropriate visual elements–such as tables, graphs, and color combinations–from the ActiveOffice gallery.

The software automatically formats the graphics in the Office document and allows the user to experiment with different combinations. The retail price is $49.95.

EMail Connection, ConnectSoft Inc., 1-800-889-3499: Users with e-mail accounts on several on-line services can benefit from EMail Connection, a universal in-box.

Microsoft's Outlook software in Office 97 can collect and deliver company e-mail as well as mail from the Internet, the Microsoft Network, or CompuServe.

EMail Connection can do this, too, but it also can handle mail from other popular services such as America Online and Prodigy. The program also permits faxing via a computer modem. The retail price is $49.95.

OfficeMate, The Learning Company Inc., 1-800-227-5609: OfficeMate is a CD-ROM collection of templates that help users create common business materials such as fax forms, sales pamphlets, financial forms, business cards, and expense sheets.

The software works as an add-on to Microsoft Word and Excel, and includes more than 400 forms in all. Users select formats from a menu in Word or Excel and type in text or data, and OfficeMate automatically formats the document. OfficeMate works on the Apple Macintosh and Windows 95 operating systems and sells for $29.95.

multiple vendors included, the Corel suites don't have a uniform interface across all the programs, although WordPerfect, Quattro Pro, and Presentations operate in a similar manner. However, a utility included by Corel—called Desktop Application Director—is helpful in moving among different applications, and Dashboard makes it easy to organize files and work with programs outside the suite.

Several of the individual applications in the latest versions of Corel's suites have the added capabilities of Web publishing and Internet linking, which allow users to create Web pages or incorporate Internet information into desktop documents.

WordPerfect Suite 7 works with the Windows 95 operating system and retails for $279. Corel Office Professional, also for Windows 95, retails for $499.

Lotus SmartSuite 97

SmartSuite, from IBM's Lotus Development Corp. division (1-800-343-5414), in Cambridge, Mass., returns with tighter integration among programs and new Web-based features. As with previous versions, SmartSuite 97 includes the Word Pro word processor, 1-2-3 spreadsheet, Freelance Graphics presentation-graphics program, Approach database, Organizer information manager, and ScreenCam utility for capturing images that appear on a computer screen.

New in SmartSuite 97 is the SmartCenter, which helps users organize messages, information, and documents.

All of these programs have been enhanced to make publishing the documents on the Web relatively easy. For example, Word Pro comes with templates for creating Web pages. The enhancements also make it simple to incorporate art, graphics, and text from the Internet into desktop presentations, spreadsheets, or word-processed documents.

However, not all of the SmartSuite improvements are Internet-related. For example, Word Pro can now create booklets or leaflets.

Freelance Graphics has added a rehearsal mode, which allows users to practice business presentations and work out problems before they face a live audience. And 1-2-3 now enables users to include information from competing spreadsheet programs, from databases, and from Lotus Notes, a software program that allows users to collaborate with others on documents over a computer network.

SmartSuite 97 works on either the Windows 95 or the Windows NT operating systems and retails for $399.

Microsoft Office 97, Small Business Edition

Microsoft (1-800-607-6872) has supplemented the Standard and Professional editions of Office with a new Small Business Edition designed to fulfill the needs of entrepreneurs.

All versions of the Office suite include the Word word processor, Excel spreadsheet, and Internet Explorer Web browser. But the Small Business Edition replaces the once-standard presentation-graphics program with small-business tools such as Small Business Financial Manager, a financial-analysis program that works in conjunction with Excel; Publisher, a desktop-publishing application; and Automap Streets Plus, a street-mapping program.

The key addition to Office, though, is Outlook, the contact-, task-, and communications-management program that serves as the central work space for the suite. For example, Outlook collects incoming e-mail and fax messages from several common sources in an in-box for reading or routing; allows scheduling of appointments, major projects, and minor tasks; organizes contact information; and launches desktop applications such as Word and Excel as needed.

As with SmartSuite, Office applications share a common user interface. An improved array of buttons and menus makes it easier to access most program functions and provides a means of launching or moving between various Office applications.

The Office 97 help system has been improved through a central application called the Office Assistant, which appears on-screen as an animated character to answer questions and offer advice.

Office applications such as Word, Excel, Publisher, and Outlook work more closely together than in earlier versions. These Office applications have also been revamped with Web extensions that help users format and convert documents into Web pages.

Office 97 is available for the Windows 95 and the Windows NT operating systems. The Small Business Edition retails for $299.

With their new Internet and collaborative capabilities, office suites are beginning to stand on their own as integrated units, rather than simply being collections of loosely related software programs.

That's good news for small-business owners such as Richard Rhodes, who relies on software to help him run his company and make it more productive. NB

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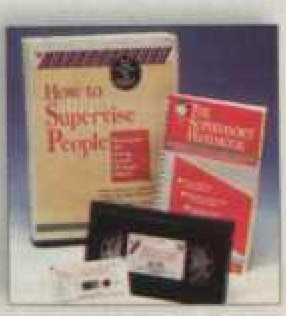

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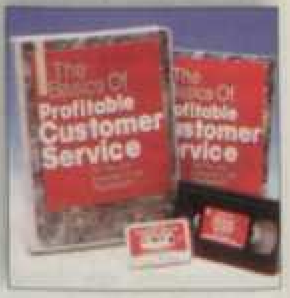

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MANAGING

When Workers Are Good Soldiers

Military officials and civilians alike promote the benefits to business owners of encouraging employees in the National Guard or Reserve.

By Albert G. Holzinger

Entrepreneurs have an uncanny knack for spotting—and using to their advantage—a dark cloud's silver lining. Take, for example, Steve Pitt, who owns and operates Architectural Hardware, headquartered in Richmond, Va.

Pitt's company fabricates and sells to construction contractors steel and wood doors, door frames, and related hardware. In the summer of 1995, when he had fewer than 25 employees, Pitt decided to open a satellite location in Fredericksburg, Va., about 50 miles north of Richmond. The person he wanted to be the operations manager of the new site was Robert Green, who already was holding down two jobs.

Green not only was key in Architectural Hardware's production operation but also was a sergeant in a local Army National Guard unit. Among his Guard obligations, Green was required to spend two weeks or more a year honing the skills associated with his specialty, combat engineering.

Pitt recalls that losing Green to military training for such long periods "was kind of tough." Yet he still felt that Green was the best candidate for operations manager at the new plant.

He says he looked beyond the inconveniences resulting from Green's military obligations and saw the positive attitude and work habits nurtured by Green's Guard training. Says Pitt: "Military service appeared to have instilled in Robert a sense of worth and good values, and he seemed to pass those traits along to the others with whom he worked. Then and now, I consider Robert a valuable business asset."

Green typifies the men and women who voluntarily attempt the difficult feat of juggling personal lives, civilian careers, and military service, says Rep. Thomas M. Davis III, R-Va. "Generally, this is a group of workers that is well-disciplined, highly motivated, and skilled. It's a good quality of employee," Davis said at a recent event in Tysons Corner, Va., that was aimed at building business support for employees in the military.

Davis himself served in active-duty and Reserve units of the Army throughout the 1970s. Early in the period he attended college and law school, and later he was employed as vice president and general counsel of PRC Inc., a high-technology firm in McLean, Va.

Maj. Gen. William A. Navas, director of the Army National Guard, headquartered at the Pentagon, in Arlington, Va., says another attribute that members of the Reserve or Guard bring to employers is assurance that they are drug-free.

"We do regular testing and have a zero-tolerance policy," says Navas, who for 10 years was in the construction contracting business. "The inconvenience of losing [an employee] for short periods is outweighed" by that assurance and other positive factors, he says.

PHOTO: T. MICHAEL KEZA

Positive traits *acquired by Robert Green, right, during service in the National Guard have made him a "valuable business asset," says employer Steve Pitt.*

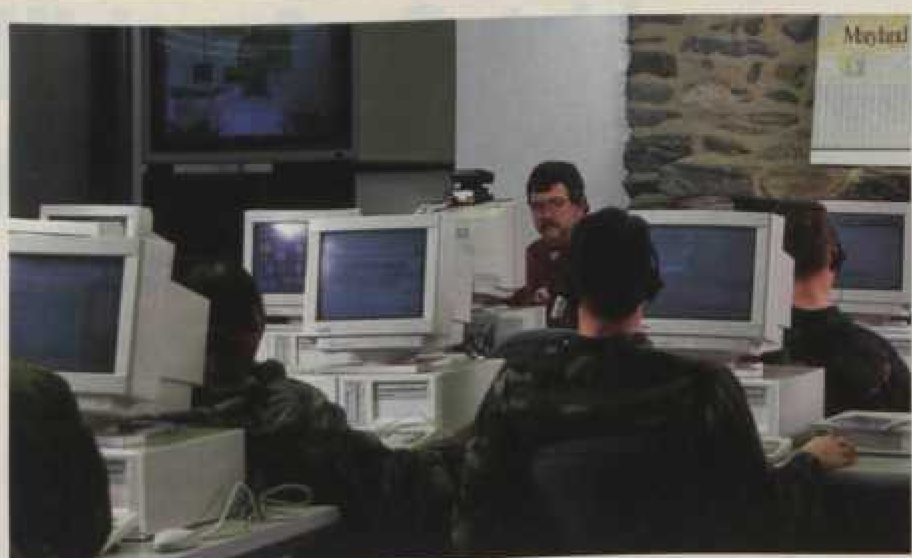
Navas, Davis, and Pitt are representative of the legion of military officials and civilian backers working to broaden employer support for current and prospective employees who serve in any of America's seven reserve forces—the Air and Army national guards and the Air Force, Army, Coast Guard, Marine Corps, and Navy reserves. Employer support is vital because the majority of those who leave the Guard or Reserve cite workplace problems resulting from their absences as a key reason.

And maintaining a strong Guard and Reserve has become vital to the effective defense of the United States. The reserve forces now make up more than half of America's total military force.

Immediately after the highly unpopular Vietnam War, the overall caliber of enlisted men and women was about average, says Lewis C. Brodsky, director of public and congressional affairs at the U.S. Selective Service System, also in Arlington. But the quality began improving dramatically during the 1980s, he says.

Ronald Reagan's presidency helped revive America's patriotic spirit, and "a really high quality of people" began enlisting, says Navas. Also during the Reagan administration, Congress dramatically increased weapons-system and other military spending. From 1980 to 1989, military spending grew about 10 percent a year, increasing to $295 billion from $131 billion, while inflation, as measured by the Consumer Price Index, averaged about 6 percent a year. It was this potential one-two punch of better soldiers and state-of-the-art weaponry that ultimately ended the Cold War, Navas says.

"Because Congress now is trying to balance the budget, fix Medicare, fight



Delivering high-quality training—*to soldiers as well as private-sector workers and students—at armories such as this one in Reisterstown, Md., is the mission of the emerging Community Learning and Information Network.*

crime, and put computers in schools," the military is on a tight budget again, Navas observes. That spending restraint means the United States will have to rely more heavily than ever on Guard and Reserve forces, which cost substantially less per soldier to maintain than active-duty units.

Increased reliance on Guard and Reserve members could further erode the already mixed amount of support they receive from business owners tired of losing key employees temporarily, Navas predicts.

To minimize the burden on employers, the military is trying to reduce workplace disruption. One major way to do this is by streamlining training.

Currently, "a lot of service time—and money—is wasted moving people to locations to receive training," says retired Army Lt. Gen. Clarence E. McKnight, now chairman of the board of the emerging Community Learning and Information Network (CLIN), a public-private partnership based in Washington, D.C. To reduce time spent for training and to provide instruction that could be useful in Guard members' civilian as well as military roles, the Guard will employ the technology-based CLIN when feasible to deliver high-quality education and skills training across great distances to Guard and Reserve members.

The CLIN training system was conceived in 1992 by the Pentagon's Defense Advanced Research Projects Agency. Federal funding totaling $7.5 million for 1996 was appropriated by Congress for construction of nine prototype CLIN training sites, in Maryland, Pennsylvania, Virginia, and West Virginia.

Funding for CLIN projects for 1997—$40 million—will pay for at least one site in all 50 states. The military's goal is to have a CLIN site within 60 minutes' driving time for each Guard and Reserve member by the end of the decade.

CLIN sites, most of them in National Guard armories, consist of one or two rooms

Marching In Step With The Rules

In peacetime as well as wartime, employees who have been ordered to report for training or active duty by their National Guard or Reserve units and who have met certain minimal reporting requirements upon their release from military service must be reinstated as employees by their private- or public-sector employers.

Under the Uniformed Services Employment and Reemployment Act of 1994, returning employees are entitled to be rehired promptly at the level of job seniority, pay, and other benefits they would have attained if their employment had not been interrupted. Business owners are not required, however, to provide returning employees with precisely the positions they held when they left for military service.

The law also requires that workers returning from military service be given job training or retraining if required. And it requires business owners to make "reasonable efforts" to accommodate returning employees who have incurred or aggravated temporary or permanent disabilities during their military service.

The statute entitles employees fulfilling Guard or Reserve duties to up to 30 days of health-insurance coverage during their military service at the same premiums available to other employees. Beyond 30 days, an employer can charge employees on military leave who desire medical coverage up to 102 percent of the total premium paid by the employer and a comparable on-the-job employee.

The statute prohibits firing—except for cause—employees returning from Guard or Reserve service. The prohibition covers 180 days of re-employment following military service of up to 180 days and one year following service of longer duration.

The law also provides that "an employer may not discriminate in employment against . . . any person because such person has taken an action to enforce a protection afforded" under the Uniformed Services Employment and Reemployment Act. If such discrimination is alleged, the burden of proof is on the accused employer.

In return for these protections, which apply to up to five years of cumulative military service per job, employees generally are required by federal law to meet certain requirements. Among other things, they must:

- Notify their employer, orally or in writing, as far in advance as possible before commencing Guard or Reserve service.
- Be released from military service under conditions other than dishonorable.
- Report back to their place of employment as soon as reasonably possible.
- Produce upon request—following service of 31 days or longer—documentation establishing the length and nature of their military service and the timeliness of their return to work.

Though release of employees from work duties to participate in military training or other activities is required under federal and some state laws, the application of those laws to individual employment situations is not always clear-cut.

The National Committee for Employer Support of the Guard and Reserve—4,000 civilian volunteers supported by a small military staff who conduct information and employer-employee assistance programs—maintains a toll-free telephone number weekdays from 8 a.m. to 4 p.m. Eastern time. Operators at the number, 1-800-336-4590, can answer questions on legal requirements and specific employment practices.

MANAGING

equipped for instruction through videoconferences and computer programs. The content is delivered via a high-capacity multimedia network. The software used to teach the courses initially will consist of about 300 programs on everyday subjects ranging from bookkeeping to foreign languages.

When they're not in use by military personnel, CLIN sites will be available for use by civilians—including public-school students and small-company employees. Fees will be determined by the developers of individual training programs.

"Everything we do today—in civilian life as well as in the military—requires problem-solving skills and the ability to use technology," says McKnight. "The public-education system just is not producing young people with the knowledge and skills that are needed to succeed in this information age." Consequently, the military and employers have a common goal of improving skill levels. And cooperative efforts to achieve that goal can benefit both, McKnight says.

PHOTO: T. MICHAEL KEZA

A recent event *to build business support for employees in the military featured two leaders of the Virginia Army National Guard—Maj. Gen. Carroll Thackston, left, and Maj. Gen. Joe Langley, now retired. With them is Rep. Thomas M. Davis III, R-Va., who served in active-duty and Reserve units of the Army.*

Underscoring the importance of such efforts is the most comprehensive analysis yet of mathematics and science achievement by junior-high students worldwide. Results of the study, done by the International Association for the Evaluation of Educational Achievement and released last fall, show U.S. students slightly below average in math and just above average in science.

In the Third International Mathematics and Science Study, covering 41 nations, Singapore, South Korea, Japan, and the Czech Republic were at the top in both categories. Near the middle with the U.S. were other Western industrial nations, including Canada, England, Germany, and France.

Raising the levels of math and science skills is the ultimate goal of CLIN, McKnight says. It's a goal that, if met, could be of great benefit to business owners. NB

FAMILY BUSINESS

Hiring An Outsider As A Top Executive

Sometimes bringing in nonfamily leadership is best for a company. And it may not be as painful as you think.

By Sharon Nelton

Michael R. Slater had been running his family's company, Wechsler Coffee Corp., since 1976. The coffee business was in flux, says Slater, and "we really needed to operate the business with an eye toward maximizing performance and adjusting the business culture to the rapidly changing environment in which we found ourselves."

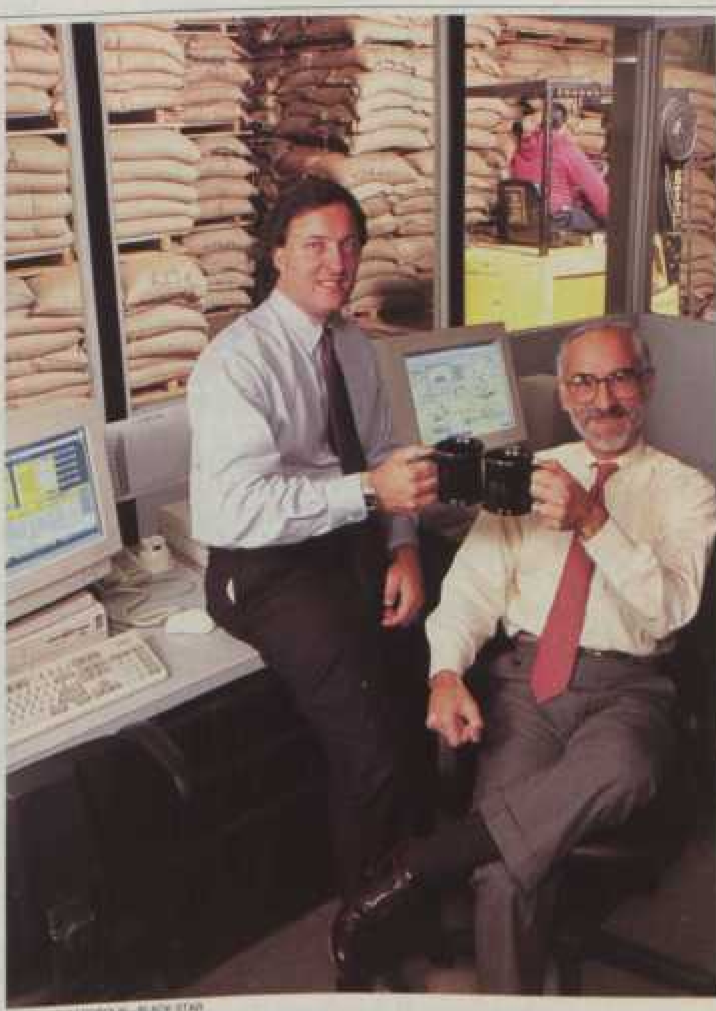
But having run the company for so long, Slater felt he had slipped into some ruts. He also saw that some of Wechsler's employees, long used to his style of management, were growing complacent. "I was very anxious that we not let the business stagnate," says Slater, 51.

He and other family members felt it was time to bring fresh leadership to the century-old Moonachie, N.J., coffee supplier, but with the oldest member of the fourth generation still in college, there were no family members to take over. So last spring, the Wechsler board of directors went outside the family and hired Michael J. O'Donnell, 41, who had headed pharmaceutical and computer companies, to be president and chief operating officer.

"We felt that only an outsider was likely to have the qualifications that we thought were necessary to bring the company where we wanted it to be and to have it deal most effectively with the changes that we were confronting," says Slater. He is now chairman and CEO of Wechsler, a 325-employee company with $100 million in annual sales.

The evidence is still anecdotal, but family-business experts say they are seeing more business families willing to consider hiring nonfamily managers.

"Families are now starting to recognize that it's not the end of the family enterprise if you bring in a nonfamily executive to lead the firm," says Randel S. Carlock, a professor of family enterprise at the University of St. Thomas, in Minneapolis. Families once might have thought that a son or a daughter had to take over or the business would have to be sold, Carlock says, but now hiring an outside manager offers a third option.



Wanting fresh leadership *for Wechsler Coffee, Michael R. Slater, right, and his family firm's board of directors chose outsider Michael J. O'Donnell as president.*

Bonnie M. Brown, a family-business adviser based in Eugene, Ore., says she is "seeing more people approach [nonfamily leadership] as a bridge" when members of the younger generation are in their 20s and 30s and the senior generation wants to retire but to hold on to ownership.

Helen and Vern Olson, founders of Rolco, a small, 17-year-old plastic injection molder in Kasota, Minn., faced such a decision. Three years ago, Vern, who was CEO, decided he wanted to get out of management and return to doing what he loved: selling and developing products. Helen, who was vice president and oversaw finance and administration, wanted a career change, too. And none of their five children was ready or willing to assume the leadership role.

So the Olsons, both now 56, hired a consultant to serve as interim CEO, freeing them to spend much of the next year working with family-business consultants to do long-term strategic planning and succession planning for their company.

By the fall of 1994, the Olsons had created a board of directors that included themselves and some talented outsiders with backgrounds in management, finance, and production. The board hired Denny Maas, who had managed production for a larger plastic molder, as Rolco's president and CEO in January 1995.

Maas, the Olsons felt, was the kind of leader who could take their small company to the next level. They have not been disappointed. Under Maas, the company's annual sales have doubled, to $6 million.

Vern is now the company's director of product development, and Helen, who is now a full-time college student with the goal of becoming a family-business consultant herself, is chairman of the board.

Bringing in a nonfamily CEO, says Helen, "has been a much more rewarding and satisfying experience than we ever imagined possible."

Sometimes, as in the case of Wechsler

Coffee, strategic concerns dictate going to an outside manager.

"If a company is looking at going international, for example, and nobody in the family has ever done that and they need someone who has global experience, then bringing in a nonfamily president makes a lot of sense," says Brown. Or a family that has acquired several companies but doesn't have enough family members to run them may need to look outside, she says.

A family firm that wants to go public, adds Carlock, might seek an outsider with the experience to help it take that step.

For some companies, Carlock says, hiring a nonfamily CEO becomes one of the business's routine cycles. He notes that the country's largest privately held firm, giant Cargill, Inc., a diversified global company based in Minnetonka, Minn., has had a nonfamily CEO twice in the past 30 years. "It doesn't mean you're not a family business," Carlock says. "It just means that no family member is ready or willing at this time to be the CEO. And it doesn't mean you can't go back to have a family member come and take over the firm as leader again."

Zippo Manufacturing Co., a lighter manufacturer in Bradford, Pa., has had two CEOs from outside the family since the founder, George G. Blaisdell, died in 1978, and it is thriving. Blaisdell's daughters, Sarah Dorn and Harriet Wick, hired Michael Schuler as chief financial officer shortly after their father's death. When they promoted Schuler to president and CEO in 1986, the company had 500 employees and $30 million in annual sales. Under Schuler's leadership, it has grown to 1,200 employees and $150 million in annual sales.

Ownership remains with the family, and while the four members of the third generation, all in their 40s, work in the business, Schuler, 46, doesn't foresee any of them becoming CEO. "I don't think any of the four are particularly aspiring to it," he says.

As businesses age and are passed to the second, third, and fourth generations, says Brown, the notion of having ownership and management be one and the same may not work, and the idea of bringing in a professional manager from outside the family becomes a more logical one.

For family companies that are thinking about turning to outside leadership, the following advice is offered by business owners, family-firm consultants, and nonfamily CEOs:

Before You Search

Consider hiring family-business advisers to help you make the transition.

"Family-business professionals can assist you in making sure that you put together the appropriate compensation package and the employment agreement to motivate this new person and to accomplish the goals that you want accomplished," says Helen Olson. She and her husband drew on the services of a family-business consultant and two attorneys who specialize in family businesses.

PHOTO: GJOE TRAVER—GAMMA LIAISON

Zippo Manufacturing *has flourished under its nonfamily president, Michael Schuler, who has been in office since 1986.*

Be sure all key players agree.

Wechsler's Michael Slater says that everybody in his family went along with the decision to hire an outsider. "The person who was most likely to disagree in this context would be me," he says, "because I was the one who was going to be giving up day-to-day operating responsibilities."

Expect some loss of privacy.

"When you bring in a nonfamily president," says Brown, "that person needs to have access to all the financial records in order to make good decisions. That person is also going to see a lot of what goes on in the family."

Have a well-defined governance structure in place.

This likely means having a board of directors to which the CEO can report, and a family council. "You cannot have multiple shareholders giving input to the CEO or you're going to lose the person," says Carlock. The family has to have unity of purpose and a clear vision, he adds.

Give yourself time.

Helen Olson is concerned that many business families don't give enough time and attention to good, long-term planning. The transition at Rolco, she says, took three years of hard work.

When You're Recruiting

Look for a good fit.

How the candidate matches up with the vision and strategy that you and your family have for the company is key, says Carlock.

According to Slater, Michael O'Donnell's background in the computer industry, a sector that is characterized by dramatic and constant change, gave O'Donnell the experience to deal with transition and with motivating people in the fast-moving environment that the coffee industry had become. "He also seemed to have the values that are very important for us," says Slater. "He did not seem to be someone who would hurt people to squeeze out the last dollar. He seemed fair but also firm."

The company also put O'Donnell through a battery of psychological tests. "They reinforced our impressions that he was a good person, an honest person, and a very high-energy, intelligent person," says Slater.

Look for someone who will have credibility not just in the business but in the family.

The family members who are not directly involved in the business should feel that the CEO is someone they can trust, says Brown.

Consider the candidate's ability to teach.

The CEO may have to mentor and coach the younger family members, says Brown. A nonfamily president, she says, may also need the courage to tell the board, which may be made up largely of family members, that a member of the younger generation doesn't belong in the business.

Make expectations clear, but be realistic about those expectations.

Your new CEO needs to have a clear job description and a good understanding of the goals of the major shareholders and of what family members working in the company want, says Carlock. But it is not realistic, he says, to expect that a nonfamily CEO can resolve family conflict.

Prepare your children for the transition.

They need to know what you're doing and why. The Olsons sought help from one of their attorneys, Glenn R. Ayres of Fredrikson & Byron, a Minneapolis law firm. "From the very beginning of our succession process, he contacted each one of our children personally and discussed with them what our thoughts were and what we were attempting to do and got their thoughts on the subject," says Helen Olson.

> "Most people get very uncomfortable with change. They don't know where they stand; they don't know how secure their job is going to be."
>
> —Manufacturing Firm Co-founder Helen Olson

Plan compensation to attract the most capable person possible and to motivate him or her to make the transition work.

You need to consider what a candidate is "apt to be looking for other than money, because if he's good, he can get money anywhere," says Helen Olson. In interviewing candidates for Rolco's CEO position, the Olsons found that many of them were interested in having equity in the company.

The Olsons have set aside 20 percent of the stock of their company for the management team. The board put the new CEO, Denny Maas, in charge of a committee to decide how to distribute the set-aside stock.

"He can decide how much he feels he should have for himself and then what he will need to attract other good team players to work with him," says Helen Olson. She says that in addition to salary and equity, Maas also receives bonuses based on the profitability of the company.

"The compensation has to be clearly geared to benefiting the [nonfamily] president now rather than having the long-term gain that a family owner might see," says Brown.

Another possibility, Carlock suggests, is to provide "phantom" stock so that the nonfamily executive does not actually own shares in the company but participates in its growth in value over time by being paid the equivalent of dividends and appreciation of stock value.

Carlock does not favor offering equity to nonfamily executives because, he says, doing so changes the political flavor of a company and adds a "wild card" to an ownership mix that is probably already confused and diverse.

You can even design a compensation package that acts as an incentive to the CEO to mentor and coach the next generation, suggests Carlock. "I might even consider giving him or her a package that paid a bonus for the performance of the business for the two or three years" after the CEO's departure, he says. What you want the CEO to be, Carlock says, "is a bridge not just in terms of operating the business but in [helping to draw] the leadership out of the next generation."

After You Have Hired

Let go of control.

If an owner won't give true authority to the new top executive, the transition probably won't work, experts warn.

At Michael O'Donnell's request, Slater agreed not to let employees bypass O'Donnell and come to Slater as they did when O'Donnell first took over. "He felt that this was undermining his attempt to make it clear that he was now in charge on a day-to-day basis," says Slater.

Helen Olson says that letting go has been easier for her than for her husband. She had set new educational goals for herself and, as chairman of the board, she still feels she has control of the family's major asset—the company—but is not involved in the company on a day-to-day basis.

Vern Olson is in the office every day, however. Says his wife: "It's just harder for him to make the transition. Even though he's happy with the transition, he just always has to keep reminding himself [that he's not the CEO anymore]. It's hard for the employees, too, because they want to come to him for answers and for solutions, just like they did before, and he needs to always be reminding them of the proper chain of authority."

MARK YOUR CALENDAR

Feb. 11, St. Louis

"Creating Harmony in the Family Business: Thriving on Productive Conflict" features the communication and management consulting team of Susan and Peter Glaser. To be repeated Feb. 12 in Bloomington, Ill. Call the Family Business Forum of Southern Illinois University at Edwardsville; (618) 692-2668.

March 5, Richmond, Va.

"Structure, Valuation, and Operating Issues Associated With Tax Minimization" is a morning program sponsored by the Virginia Family Business Forum of the Virginia Commonwealth University School of Business. Call Betty Snapp; (804) 828-7288.

March 6, Manchester, N.H.

"Financing Growth: Access to Capital and Other Financing Alternatives" is a program that looks at how family firms put together financial packages and manage banking relationships. Call Barbara Draper at the University of New Hampshire's Shapiro Forum for the Entrepreneurial Family; (603) 862-1107.

March 7, 14, and 21, Cambridge, Mass.

"Love and Money: Understanding the Dynamics of the Family Business System" is a three-part course for family-business owners, advisers, and consultants. Instructors are family-business consultants Jane Hilburt-Davis and John G. Troast Jr. Call the Cambridge Center for Creative Enterprise; 1-800-531-5755.

March 12, Jericho, N.Y.

"Ethics in Family Business" is the topic of a dinner seminar featuring a rabbi and a Catholic priest. For information, call the Long Island University Center for Family Business; (516) 299-2236.

March 20 and 21, Montreal

"Beyond Borders: *Vive la Différence*" is a conference for the directors of family-business councils, curriculums, forums, and programs. Contact the Family Firm Institute, in Brookline, Mass.; (617) 738-1591.

How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

Allow for an adjustment period for employees.

Longtime employees may feel the nonfamily CEO is a threat to them and to their relationship with the family, Carlock points out. You need to explain to employees why you're hiring an outside executive.

"Most people get very uncomfortable with change," says Helen Olson. "They don't know where they stand; they don't know how secure their job is going to be."

Slater feels the adjustment at Wechsler was most difficult for employees who, "No. 1, had a particularly close relationship with me, and, No. 2, for those whose performance was really not as good as it should have been and who perhaps recognized that they were going to be under a more intense scrutiny than they had been. For them, I think [O'Donnell's] presence has been a source of anxiety, but I think it's a very positive source of anxiety."

Helen Olson says that she and her husband supported new CEO Maas "100 percent" and that Maas took the time to know the company and implemented changes slowly. "I think that's given the employees a good comfort level," she says.

"When you bring in a nonfamily president, that person needs to have access to all the financial records in order to make good decisions. That person is also going to see a lot of what goes on in the family."
—Family-Business Adviser Bonnie M. Brown

Share information.

The family needs to make sure the nonfamily manager has complete information. Even family secrets, such as a family member's alcoholism and its effect on performance, need to be shared, says Carlock.

But the nonfamily executive also needs to keep the family informed. Carlock recommends quarterly or semiannual family meetings at which the nonfamily CEO can update the family on the company's successes, challenges, and plans.

While families may resist the notion of hiring leadership from outside the family, doing so can reduce the friction that might arise when a choice must be made from among family members, or it can ease conflicts among family managers.

Says Slater: "Family-run businesses should consider bringing in nonfamily members as a possible way not only to find the best-qualified person to take their business where they want it to go but also to avoid some of the problems that are inherent when family members run businesses where there are multiple family members involved." NB

Outside Looking In: Tips For Candidates

Suppose you are invited to interview for the role of chief executive or another senior-level position in a family business but you are not a member of the owning family. Here are some pointers to keep in mind, gathered from family-business owners, nonfamily executives, and consultants:

Look for the right match.

Do the values of the family mesh with yours? Do the family's expectations for the CEO match your skills and what you want to accomplish?

Wechsler Coffee Corp., a food-industry supplier based in Moonachie, N.J., needed a president who would help the company cope with a fast-changing industry. The owning family found what it wanted in Michael J. O'Donnell, who says: "I'm not a caretaker. If something is running on all pistons and everybody is happy, I'm the wrong guy to bring in because I'm going to shake things up and stir the pot. So if you want more of the same, I'm not the guy."

Make sure all key family members agree to hiring an outside executive.

If some aren't for it or aren't sure, a nonfamily leader "is destined for doom, no matter how good he is," says O'Donnell. O'Donnell interviewed at several family firms besides Wechsler and found that the family members at the other firms were still fighting among one another over whether to hire a nonfamily executive. At Wechsler, he found family members in "complete harmony" about their decision.

Meet all the major players before you accept a position.

"Find out what their values and their vision are," urges Randel S. Carlock, a professor of family enterprise at the University of St. Thomas, in Minneapolis. O'Donnell met with each board member individually. "I wanted to make sure that I was hearing everybody in sync," he says.

Understand what family businesses are like.

When you are the CEO of a public corporation, you are expected to manage only the corporation, notes Helen Olson, co-owner and chairman of the board of Rolco, a plastic injection molder in Kasota, Minn. "When you accept the position of a CEO of a family business, you actually inherit the family. They become part of your work.

"And whether those family members are actually working in the business or not, you need to be very sensitive to their needs and their expectations. You need to work with the family as well as the corporation."

A nonfamily CEO has to understand "the interaction between the family members and the business," adds Michael Schuler, the nonfamily president and CEO of Zippo Manufacturing Co., a lighter manufacturer in Bradford, Pa. Family issues such as estate planning and succession can affect the business, he points out.

Determine how professionalized the business is.

For example, does it have an organized family council that holds regular family meetings? Does it have talented outsiders on the board of directors? These, says Olson, "can be very, very key to the success of that nonfamily manager. The family council will take care of the business of the family, and the board of directors will take care of the business of the business and will really clear the way for the nonfamily manager to be successful."

Some families may expect the CEO it hires to help the business become more professionalized. (See "Professionalizing A Family Business," December 1996.)

Understand what your duties are, the extent of your authority, and how you're going to be evaluated.

Carlock advises obtaining "a very well-crafted employment agreement" that protects you in case of a dispute with the family. "You're not going to be an effective CEO if you know you're on 30 days' notice," he says.

In some family businesses, you may be expected to mentor members of the next generation or to train an heir apparent to become the company's next leader.

But don't get pulled into family disputes. That, Carlock warns, is the biggest pitfall of working for a family business when you're not a family member.

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Analysts Forecast Smaller Gains For 1997

By Randy Myers

Talk about an encore. The stock market stormed to new highs for a second consecutive year in 1996, surprising its skeptics with its strength and stamina. Despite concerns about pushing their luck, most Wall Street strategists see further, albeit smaller, gains in 1997.

Their caution isn't surprising. After watching the average U.S. stock fund advance a breathtaking 31 percent in 1995, most investment analysts had predicted only moderate gains for 1996. Instead, the Dow Jones industrial average soared an additional 1,331 points, and the average stock fund posted a total return of 19.5 percent, extending the bull market for a sixth consecutive year.

The compounded two-year return of 56.2 percent earned by stock funds in 1995 and 1996 represented the market's best back-to-back performance since 1979 and 1980, when the average fund rose 75.1 percent, according to Lipper Analytical Services Inc., a mutual-fund research company in Summit, N.J.

"It was definitely a great market," says Kevin Parke, director of equity research at Massachusetts Financial Services, operator of the MFS family of funds. "I'm always surprised when the market gives me more than 10 percent, and anybody who's not should check their reality schedule."

A Mixed Outlook

For all that, Parke still doesn't think the stock market is unreasonably priced. The same factors that drove stocks higher in 1996—low and stable interest rates, low inflation, and healthy corporate profits—should allow the market to post further gains in 1997, he suggests, perhaps earning investors as much as 12 percent if his investment thesis proves correct.

Wall Street's outlook for the bond market isn't so sanguine. The average taxable domestic bond fund posted a total return of just 4.69 percent last year, held in check by a stronger-than-expected economy that grew 2.9 percent through the first nine months of the year. Bond investors worried that if the economy got much stronger, the Federal Reserve Board would raise short-term interest rates to head off inflationary pressures. When interest rates rise, bond prices fall.

At the end of 1996, that scenario looked less than probable. Fifty-one business and academic economists surveyed monthly by *Blue Chip Economic Indicators* forecast gross domestic product growth of just 2.2 percent for 1997, and a slight increase in the prime interest rate (to 8.33 percent from 8.29 percent in 1996). The consensus forecast also calls for inflation, as measured by the Consumer Price Index, to remain in check, hitting 2.9 percent for the second year in a row.

"Inflation will be the key factor," says David Albrycht, manager of the Phoenix Multi-Sector Fixed-Income Fund. "If it remains under control—which we expect—rates will ultimately go lower."

Performance Of Mutual Funds, By Category

With Dividends Reinvested Through Dec. 31

Type Of Fund	4th Quarter	One Year	Five Years*
General Stock Funds			
Capital-appreciation funds	2.50%	16.31%	13.54%
Growth funds	5.14	19.24	13.34
Midsize-company funds	2.36	17.92	13.93
Small-company growth funds	2.48	20.15	15.37
Growth and income funds	7.42	20.78	13.99
S&P 500 Index objective funds	8.22	22.30	14.71
Equity income funds	7.45	18.83	13.71
General Stock Funds Average	4.99	19.47	13.92
Sector Stock Funds			
Health/biotechnology funds	1.66	13.40	11.48
Natural-resources funds	8.91	32.74	14.53
Environmental funds	3.83	18.50	5.11
Science and technology funds	4.81	19.11	23.05
Specialty/miscellaneous funds	3.17	14.04	14.64
Utility funds	8.20	9.87	10.12
Financial-services funds	11.35	28.01	23.44
Real-estate funds	15.89	30.80	13.48
International Stock Funds			
Gold-oriented funds	-4.67	7.56	8.61
Global funds	4.51	16.51	11.49
Global small-company funds	2.14	16.51	11.05
International funds	3.85	11.78	10.24
International small-company funds	2.82	13.25	9.18
European-region funds	8.70	23.88	12.88
Pacific funds, excluding Japan	4.80	11.11	14.00
Pacific-region funds	-0.30	4.10	8.81
Emerging-markets funds	1.37	11.21	10.49
Japanese funds	-9.77	-11.98	-1.05
Latin American funds	2.12	27.40	5.61
Canadian funds	4.59	21.03	9.62
International Stock Funds Average	3.00	12.76	10.21
All Stock Funds Average	4.74	17.72	13.43
Mixed Equity Funds			
Flexible portfolio funds	5.15	13.60	11.06
Global flexible portfolio funds	4.93	13.50	10.41
Balanced funds	5.31	13.76	10.80
Balanced-target maturity funds	3.95	7.04	8.04
Convertible-securities funds	4.22	14.82	12.16
Income funds	4.72	11.54	10.60
Mixed Equity Funds Average	5.07	13.45	10.87

*Average annual change

SOURCE: LIPPER ANALYTICAL SERVICES INC.

Steady Performers

Despite Wall Street's benign outlook for the financial markets, it wasn't easy to find bargains heading into 1997. In the stock market, many money managers started the year favoring many of the same sectors that performed well in the fourth quarter of 1996, including real estate, financial services, and technology companies.

Real-estate funds soared 15.9 percent in the fourth quarter and 30.8 percent for all of 1996, second only to natural-resources funds, which were inflated by a yearlong rally in energy prices that few analysts expect to see duplicated in 1997.

Thomas Van Leuven, an investment strategist for J.P. Morgan Securities Inc., notes that real-estate funds tend to do well when the economy is doing well because that's when occupancy rates and rental rates are strong. Real-estate funds pay higher dividends than the average common stock, and those dividends could prop up returns for real-estate investors this year if the rest of the market doesn't live up to expectations.

In the financial sector, bank stocks continue to benefit from mergers-and-acquisitions activity, stable interest rates, healthy loan portfolios, efficiencies gained from restructuring efforts, and growing fee-based business activities. Parke says those factors should help banks perform well again in 1997. Insurance stocks could also climb as insurance companies begin to reap restructuring efficiencies similar to those already enjoyed by banks.

"We also remain committed to the technology sector, which was one of the strongest sectors of the market last year with gains in excess of 45 percent," Parke says. "That was driven by the huge profit growth in this industry, particularly among computer software companies."

Stock Performance In The Fourth Quarter

Industry Group	Change In Value Oct. 1 To Dec. 31 (Figures Are Percentages)
Tobacco	23.0
Electronics	17.9
Foods—meats, dairy	17.2
Oil, natural-gas services	16.1
Real estate	14.2
Banking	13.0
Savings and loans	12.8
Credit	12.5
Insurance	12.3
Real-estate investing	11.9
Oil, refining, marketing	10.9
Automotive	10.6
Oil, natural-gas production	10.1
Paper, packaging	9.8
Dow Jones Industrial Average	9.6
Textile manufacturing	9.0
Cosmetics—personal	8.9
Utilities—gas, other	8.8
Airlines	8.2
Multi-industry	8.2
Electrical equipment	8.1
Food—packaged goods	7.9
S&P 500 Index	7.8
Investments	7.6
S&P Industrial Index	7.0
NYSE Index	6.8
Aerospace	6.5
Housewares, furnishings	6.5
Rubber, plastic	6.1
Media General Stock Index	5.7
Freight, shipping	5.6
Metals fabrication	5.6
Distillers—brewers	5.5
Recreation—movies, sports	5.5

Industry Group	Change In Value Oct. 1 To Dec. 31 (Figures Are Percentages)
Precision instruments	5.2
Nasdaq Index	5.2
Building	5.0
Drug manufacturers	4.2
Metals—nonferrous, coal	4.1
Utilities—electric	4.0
Publishing	3.9
Business data processing	3.9
Food—confections	3.7
Machinery—light equipment	3.1
Chemicals	2.8
Food production	2.4
Communications	2.2
AMEX Index	2.1
Machinery—heavy	1.9
Metals—iron, steel	1.8
Business equipment	0.8
Retail—food stores	-0.2
Retail—apparel	-1.0
Railroads	-1.1
Recreation—luxury	-2.1
Shoes, leather	-2.3
Health	-2.4
Retail—discount, drugs	-2.7
Retail—miscellaneous	-2.7
Personal services	-3.0
Building—heavy	-3.8
Recreation—broadcasting	-4.1
Metals—rare	-4.1
Hotels, motels, restaurants	-5.1
Retail—department stores	-5.2
Textiles—apparel	-5.2
Business services	-5.3

SOURCE: MEDIA GENERAL FINANCIAL SERVICES

Looking Abroad

Although most international stock markets lagged the United States' over the past two years, Paul Boltz, chief economist with T. Rowe Price Associates, in Baltimore, reminds investors not to overlook international markets in 1997. His firm is particularly intrigued by the prospects in Latin America and Europe. Funds that specialized in those two regions outperformed U.S. stock funds on average last year, with gains of 27.4 percent and 23.9 percent, respectively.

For fixed-income investors, the best opportunities in 1997 may lie outside traditional sectors of the bond market. While U.S. Treasuries, municipal bonds, and high-quality corporate bonds all turned in mediocre results last year, high-yield corporate securities, also known as junk bonds, and emerging-markets debt posted outstanding results.

The Lehman Brothers High-Yield Bond Index rose 11.4 percent last year, while the J.P. Morgan Emerging Markets Bond Index Plus rose 39.9 percent.

Limiting The Exotics

To be sure, high-yield bonds and emerging-markets debt carry significantly more risk than bonds issued by the U.S. government or by big, stable U.S. corporations. If the economy sours, companies saddled with high-yield bonds may be hard-pressed to meet their debt payments. And political crises of various sorts can rough up the market for emerging-markets bonds, as happened in 1994, when Mexico devalued the peso. That year, the J.P. Morgan Emerging Markets Bond Index Plus fell 19 percent.

The solution, say financial advisers, is to make such investments only a small portion of your portfolio—perhaps 5 to 10 percent. And if you're not comfortable venturing into such exotic investments, don't feel too bad about sticking with domestic stocks and bonds right now.

"The fundamentals of the domestic and global economy are so good that it's just a remarkable period of time that we're living through," says Boltz.

It's hard to ask for more than that. ■

Randy Myers is a financial writer in Dover, Pa.

ACCOUNTING

A Checklist For Tax Talks

Accountants who work primarily with small businesses say owners often don't keep them sufficiently informed about business and personal financial decisions. And poor communication often has costly tax consequences.

For example, maybe you're thinking of buying some business equipment in the fall. But holding off until the following year may be a smarter tax strategy "because you might need some extra expenses to offset anticipated growth in profits," says Roger Harris, president of Padgett Business Services, a franchisor of accounting and tax services, based in Athens, Ga.

Moreover, you should talk with your accountant on a regular basis, not just when you're about to make a major financial decision. "You shouldn't wait until March to start talking to your accountant," says Harris, "because you could miss out on some valuable tax savings."

Says Douglas Stives, a CPA with Curchin & Co. in Red Bank, N.J.: "I tell my clients to call every quarter when they do the work on their sales- and payroll-tax deposits."

Both Stives and Harris suggest that the business owner draw up a checklist of topics for discussion. Here are items they say should be on the list:

- Is there any change up or down in your sales, expenses, or expected profits that might require a change in tax planning?
- If you're thinking of acquiring new equipment, should you purchase or lease? Should you get the equipment now or wait until the beginning of next year?
- Are there important changes in your personal finances? Do you expect that more money will be coming in because your spouse has a new job or you are making more money with your investments?
- Are there financial moves you can make now to benefit your estate plan?
- Is your business structure (sole proprietorship, corporation, or partnership, for example) the best for your current or expected needs?
- What about your salary? Should you be putting more money aside for retirement? If your firm is a corporation, should you be taking more money in dividends?
- Do you know what your business and personal tax liabilities will be? Will you have enough cash to cover the required payments?
- What about your retirement plan? Should it be revamped so you can put away more tax-deferred money?
- What about changes in the tax law? Are you aware of new deductions and credits that are now available? For example, Congress reinstated the tax deductibility of employer-paid education costs for employees.

"Your accountant may be keeping up with all the changes in the tax laws but may not be keeping up with all the changes in your business and private life," says Harris. "And that's why you've got to keep in touch. It really pays off."

—*Peter Weaver*

The author is a free-lance writer in Bethesda, Md.

INSURANCE

Long-Term Coverage Eligible For Tax Breaks

Since the passage of the Health Insurance Portability and Accountability Act of 1996 in August, insurance companies have been reporting record sales of long-term-care policies to small businesses.

This type of insurance picks up most expenses when a policyholder is in a nursing home or an assisted-living facility or requires extensive home-care services. Small firms that buy such policies generally cover all of their employees.

"Sales are being driven by the tax benefits in the new law and by a growing awareness among business owners of the need for long-term-care coverage," says Stephen K. Meahl, senior vice president for long-term care with Unum Life Insurance Company of America, in Portland, Maine.

"The new law makes premiums paid by employers deductible as a business expense," says Richard W. Garner, a vice president and actuary with CNA Insurance Cos., in Chicago. The law "treats long-term-care insurance like other health insurance."

This means that benefits are tax-free, and any premiums paid by employees may be tax-deductible if the taxpayer has unreimbursed medical expenses that exceed 7.5 percent of adjusted gross income.

The self-employed, partnerships, and S corporations (with some restrictions) may deduct 40 percent of premium costs this year and 45 percent in 1998 through 2002. Thereafter through 2006, the deduction will rise in stages to 80 percent.

C corporations can handle long-term-care premiums just as they deal with other health-insurance costs, deducting them as a business expense.

Premiums are based primarily on an individual's age. For example, Unum offers a policy for a group of 20 or more that pays $3,000 a month for up to five years, stipulates a 90-day waiting period before benefits can begin, and has a benefits escalator of 5 percent compounded annually for inflation. It costs $400 a year for a 40-year-old, $688 for a 50-year-old, and $1,314 for a 60-year-old.

An individual policy with such terms would cost $911 a year for anyone under 55. The premium is higher for each year beyond that; a person who is 60, for example, would pay $1,336.

Susan Polniaszek, an insurance consultant and authority on long-term coverage, offers a caveat: "Some policies and some companies are a lot better than others." Check with an independent insurance agent who represents a number of companies or with a financial planner to find the best long-term-care insurers.

Also, long-term-care insurance may not be a good buy for everyone. "There's a rule of thumb," Polniaszek says, "where individuals with more than $1 million in assets may be able to self-insure and those with less than $100,000 may eventually be covered by Medicaid."

—*Peter Weaver*

BUSINESS ORGANIZATION

Easier Rules Take Effect For S Corporations

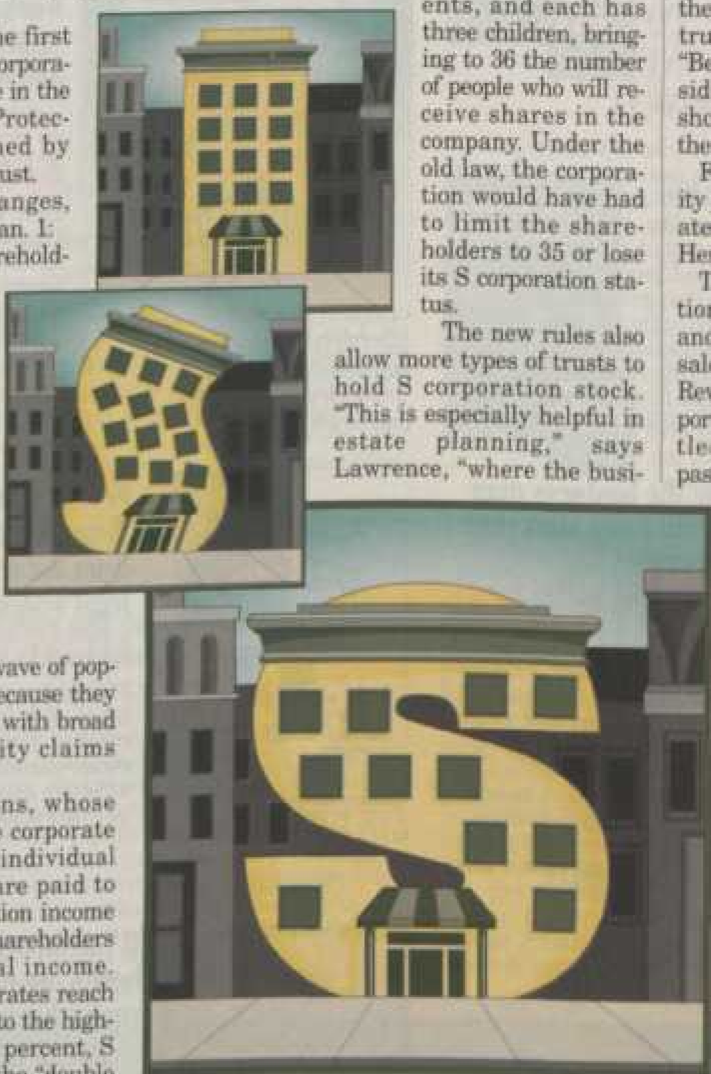
By Gloria Marullo

The rules governing the formation and operation of Subchapter S corporations—45 percent of all businesses—just became more user-friendly.

Congress included the first sweeping changes in S corporation law in over a decade in the Small Business Jobs Protection Act of 1996, signed by President Clinton in August.

Here are the key changes, which became effective Jan. 1:

- The number of shareholders permitted in an S corporation increased to 75 from 35, and the types of shareholders permitted were expanded.
- S corporations may now own subsidiaries.
- Tax-exempt organizations such as charities may own shares in S corporations after Jan. 1, 1998.



S corporations rode a wave of popularity in recent years because they combine tax advantages with broad protection from liability claims against owners.

Unlike C corporations, whose profits are taxed at the corporate level and again at the individual level when dividends are paid to shareholders, S corporation income "flows through" to the shareholders to be taxed as personal income. Even though individual rates reach 39.6 percent, as opposed to the highest corporate rate of 35 percent, S corporations still avoid the "double tax" of C corporations.

"While S corporations have always avoided the double taxation," says W. Thomas Lawrence, national director of entrepreneurial tax services with Ernst & Young in Atlanta, "they had a lot of restrictions that for some companies outweighed the tax advantages." The recent congressional changes have swept aside many of those restrictions.

Slicing The Pie, Securing The Future

Raising the number of shareholders to 75 from 35 is particularly helpful for succession planning.

Consider a hypothetical example: Ten years ago, four partners in their late 50s started an S corporation that proved very successful. Each of the four shareholders has three children, and each intends to pass his stake in the corporation on to the children. Those 12 children now are parents, and each has three children, bringing to 36 the number of people who will receive shares in the company. Under the old law, the corporation would have had to limit the shareholders to 35 or lose its S corporation status.

The new rules also allow more types of trusts to hold S corporation stock. "This is especially helpful in estate planning," says Lawrence, "where the business owner has young children or grandchildren." If the owner wants to transfer some of the company's stock to children—but doesn't think they're old enough or responsible enough—the owner now may transfer the stock to a trust rather than directly to the children.

Spreading Risks, Cutting Taxes

Perhaps the biggest new opportunity for S corporations is the ability to own subsidiaries.

Say you have a manufacturing firm set up as an S corporation and you decide to truck your own products. The potential for accidents and liability lawsuits is high for trucking firms. But under the new rules, you may limit your liability by making the trucking company a subsidiary of the manufacturing company. Then assume the worst. There's a terrible accident, the trucking company is sued, and it loses. "Because the trucking company is a subsidiary," says Lawrence, "your liability should be limited to your investment in the trucking company."

For S corporations that export, the ability to own a C corporation subsidiary creates a new opportunity for tax savings. Here's how:

The S corporation creates a C corporation subsidiary that in turn establishes another business entity called a foreign sales corporation (FSC). Under Internal Revenue Service rules, a portion of the export income generated by the FSC is entitled to a special tax deduction when passed to the C corporation in the form of a "dividend." If the same income were passed from the FSC directly to the S corporation, it would be taxable to the shareholders.

In short, without the ability to create a C corporation subsidiary, there would be no tax benefit for an S corporation to create an FSC. "Thanks to the new subsidiary rules, S corporations can use their export sales to reduce their U.S. taxes," says Terrance Kurtenbach, an international tax partner with Deloitte & Touche in Milwaukee. "You don't get deals like this every day."

Changing Over

If you operate as a C corporation and you're interested in making the switch to S corporation status, you must have met all of the eligibility requirements—such as the limits on the types and number of shareholders—by Jan. 1, 1997. You have until March 15, 1997, to file the election to become an S corporation for the 1997 calendar tax year.

Moreover, if you terminated your S corporation election within the past five years and now wish you hadn't, you can re-elect S corporation status for 1997. Before the recent changes, you had to wait five years before you could re-elect to become an S corporation. Congress waived the five-year wait for companies that terminated their S election before Jan. 1, 1997. NB

Gloria Marullo is a CPA and business writer in South Bend, Ind.

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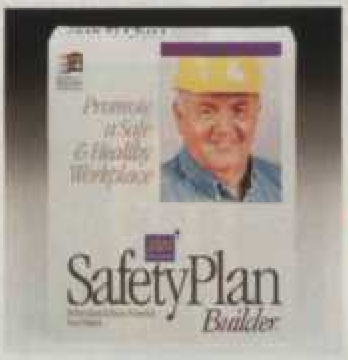

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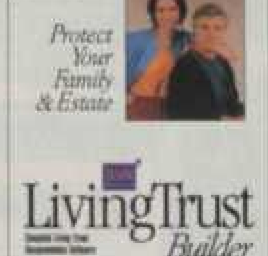

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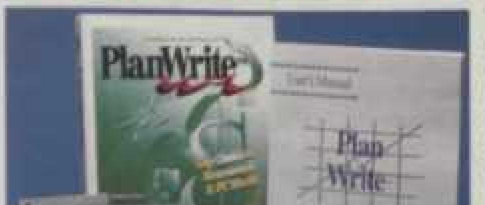

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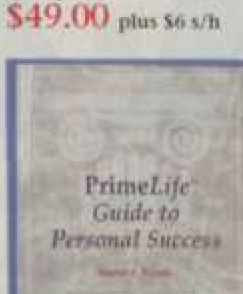

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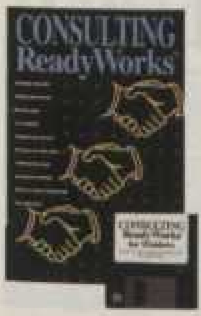

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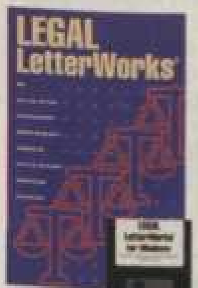

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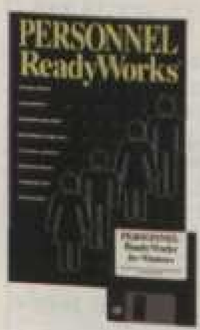

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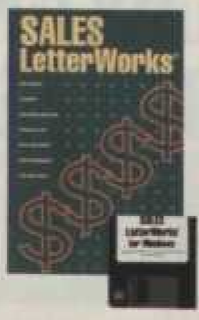

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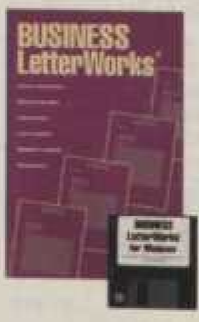

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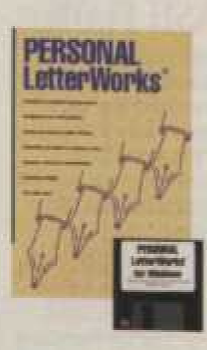

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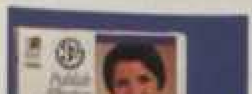

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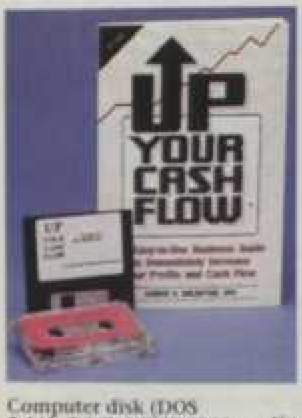

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December Poll Results

Readers' Views

Start Reforms Now

Respondents to a *Nation's Business* poll said the projected financial problems of the Social Security system are serious and that reforms should begin now, but they indicated they are ready for only partial reforms.

In responding to the Where I Stand poll in the December issue, the majority expressed opposition to raising the retirement age for full benefits any higher than is planned (to age 67 from age 65 over 30 years) or giving reduced benefits to wealthier retirees. And, by a large margin, they opposed raising the Social Security payroll tax for employers and employees.

The results also showed that 49 percent of respondents favored reducing future increases in Social Security benefits to bolster the system's financial reserves.

By a large margin, respondents also favored partial "privatization" of Social Security, in which part of Social Security revenues would be invested in private financial markets.

Here are the complete results:

Questions And Answers

What is your view of the projected financial shortfall of the Social Security system?

Very serious .... 80% Somewhat serious .... 18% Not serious at all 2%

Should the major work on restructuring the Social Security system begin now, or can the projected problems be left for future presidents and Congresses to solve?

Major reform efforts should begin now 98%
Leave the system's problems for future presidents and Congresses 2

Under current law, the age at which retirees can begin drawing full benefits will be raised gradually to 67 from 65 over the next 30 years. Should Congress raise the age even more?

Yes .... 32% No .... 56% Undecided 12%

Should wealthy recipients receive smaller benefits than those at lower income levels?

Yes .... 34% No .... 58% Undecided 8%

Should future cost-of-living increases in Social Security benefits be reduced to shore up the system's reserves?

Yes .... 49% No .... 42% Undecided 9%

Should the Social Security payroll tax—currently 6.2 percent of wages for employers and 6.2 percent for employees—be increased to build up reserves necessary to maintain present benefits?

Raise the employer portion of the tax only 3%
Raise the employee portion of the tax only 8
Raise both portions 16
Raise neither 73

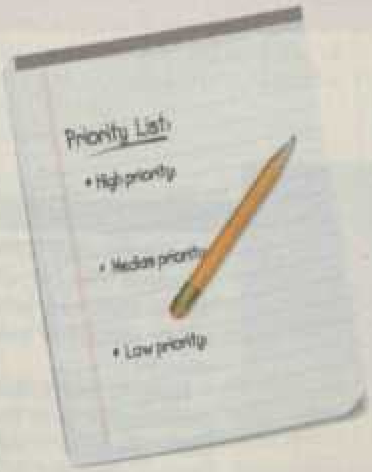
Should part of Social Security taxes be invested in private financial markets to build up reserves for future payments?

Yes .... 79% No .... 11% Undecided 10%

If part of Social Security revenues were invested in private financial markets, who should make the investment decisions?

The Social Security Administration .... 31% Individual taxpayers 69%

Where I Stand



On Small-Business Issues

As Congress and the president prepare to set priorities and make hard choices about legislation, it's time for you to make hard choices about the relative importance of small-business issues. In making your choices below, weigh each issue against the others and indicate your priorities.

Results of this poll will appear in the April issue of *Nation's Business* and will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid Reader Response Card. Or circle your answers and fax this page to (202) 463-5636.

1 Estate-tax reform:

Overhaul tax laws so family businesses can be preserved and passed on intact to succeeding generations.

1. High priority
2. Medium priority
3. Low priority

2 Independent contractors:

Clarify further the distinction between employees and workers hired only for specific projects.

1. High priority
2. Medium priority
3. Low priority

3 Home-office deduction:

Restore the tax breaks for people who work out of their residence.

1. High priority
2. Medium priority
3. Low priority

4 Health-care deduction:

Allow the self-employed a 100 percent tax deduction for medical insurance, the same deduction big businesses are allowed.

1. High priority
2. Medium priority
3. Low priority

5 Federal paperwork:

Bring the Internal Revenue Service, the biggest source of federal forms, under the Paperwork Reduction Act.

1. High priority
2. Medium priority
3. Low priority

6 Regulatory relief:

Require regulators to consider specifically the impact of their rules on small businesses.

1. High priority
2. Medium priority
3. Low priority

Send Your Response Today!

Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Michael Barrier

GOVERNMENT CONTRACTS

ILLUSTRATIONS: MARTHA VAUGHAN

Learning How To Sell To Uncle Sam

I want to do business with the federal government. All I have are books from the library that don't really detail how to get on approved-vendor lists. Nor do they explain other aspects of procurement. Are there any other resources you can point me to?
F.P., East Lansing, Mich.

To orient yourself on the procurement process in general, you can start by obtaining *Procurement Opportunities: A Small Business Guide to Procurement Reform*, published by the U.S. Small Business Administration (SBA). The full text is available at the SBA Office of Advocacy's World Wide Web site, *http://www.sba.gov/advo*, under "reports."

For a hard copy, call the Office of Advocacy at (202) 205-6532 or the SBA's Office of Government Contracting at (202) 205-6460; ask for publication No. 2043. The guide is also available through SBA district offices.

Another important Internet address is that of the Acquisition Reform Network, *http://www.arnet.gov*, a source of current information on procurement policy. That Web site was scheduled to become the principal source for *Commerce Business Daily* on Jan. 1.

CBD, published by the U.S. Department of Commerce, is available on paper, too, at $162 for six months by first-class mail. To subscribe, call the Government Printing Office at (202) 512-1800.

CBD lists most proposed government procurement actions above $25,000. Contracts below $100,000 are reserved for small firms, which often can benefit from newly simplified bidding procedures.

Keep in mind that federal procurement is in flux. Under the Federal Acquisition Streamlining Act of 1994, all government agencies and their suppliers would do business through a computer system called FACNET (for Federal Acquisition Computer Network) by 2000, with the agencies asking for price quotations and the suppliers responding electronically.

That was the goal. The reality, says Steven Kelman, administrator of the procurement-policy branch of the federal Office of Management and Budget, is that "experience is teaching us that this approach may not be a good way to go." The Defense Department has committed itself to FACNET, but most other agencies are still asking for price quotations through *CBD* and oral solicitations.

For tips on selling to the government, see the January Entrepreneur's Notebook, "Uncle Sam May Want You." ■

GETTING STARTED

Call Of The Wild

I would like to open a gallery featuring wildlife art. Where can I get a list of artists and sculptors as well as information on trade shows?
K.L., Des Moines, Iowa

We could find no active organization devoted exclusively to wildlife artists. However, several leads were provided by Pamela Harr, a sculptor who, with her husband, Harvey Rattey—also a sculptor—operates the Bridger Bronze Gallery, in Glendive, Mont. The gallery is devoted to sculptures of wildlife and various Western subjects.

She suggests that one of the best ways to get in touch with such artists is through their advertisements in art magazines. A likely source is *Wildlife Art*, P.O. Box 16246, Minneapolis, Minn. 55416-0246; 1-800-221-6547. A year's subscription is $32.95.

Harr also recommends the 29th annual C.M. Russell Auction of Original Western Art, in Great Falls, Mont. The event—named in honor of the Western artist of the early 20th century—draws artists from around the country, including some who specialize in wildlife. This year's auction will be held at the Heritage Inn in Great Falls on two nights, but the activities surrounding the auction will cover four days, March 19-22.

Only 250 pieces chosen by a jury will be auctioned, but Heidi Martincic, the publicity chairwoman for the auction, says that artists who pay for booths will have many other pieces on exhibit. For more information about the show, call the Great Falls Advertising Federation at (406) 761-6453.

Similar art shows are held in other parts of the country, if not necessarily on the same scale; check with local arts organizations. One show, the Southern Wildlife Exposition, will be held Feb. 14-16 in Charleston, S.C. For information, contact the exposition at 211 Meeting St., Charleston, S.C. 29401; (803) 723-1748.

Park Your RV Here

I would like information on how to plan and build a recreational-vehicle park.
B.H., Silver City, N.M.

The Recreation Vehicle Industry Association (RVIA) sells a multipart RV Park Development Kit for $90. Call the association at (703) 620-6003 and ask for the publications department; or write to 1896 Preston White Drive, P.O. Box 2999, Reston, Va. 20195-0999. The components of the kit are also available as individual publications (for example, a booklet titled *RV Park Development and Management* is $10); ask for the *Catalog of Technical Publications for the RV Industry*. ■

LICENSING

Getting A Product Into The End Zone

How does one present a product to be approved as an official licensed product of, say, the National Football League (NFL) or the National Collegiate Athletic Association (NCAA)?
M.P., Knoxville, Tenn.

Brian McCarthy, manager of corporate communications for the NFL, says that potential licensees should contact NFL Properties, the licensing and marketing arm of the NFL and all its teams, at 410 Park Ave., New York, N.Y. 10022; (212) 838-0660.

NFL Properties works with 275 licensees, which manufacture more than 1,000 products. The licensee total is down from 425 a couple of years ago—NFL Properties has been "consolidating" licensees, McCarthy says—but there is still room for new licensees who propose products "that would fill a niche and help enhance the fans' enjoyment of the game."

Once NFL Properties has given the green light to an idea, the applicant must provide product samples that meet the NFL's quality standards. Moreover, the company must be prepared to make versions of the product that represent all 30 NFL teams. A business in Baltimore, for example, can't make products representing only the local NFL team, the Ravens.

A company applying for a license must also come up with an impressive marketing plan and otherwise demonstrate financial strength.

A licensee must pay a royalty of 9 to 11 percent of the wholesale price of each item and must guarantee a certain minimum total payment to NFL Properties even if the product turns out to be a bomb.

The NCAA is organized very differently. You must go through the NCAA to use its insignia and trademarks such as "Final Four." The NCAA is at 6201 College Blvd., Overland Park, Kan. 66211; (913) 339-1906.

Many individual schools handle their own licensing, however. Others have assigned their rights to the Collegiate Licensing Co., in Atlanta; (770) 956-0520.

A full report on licensing, "Hot Names, Top Dollars," was the August 1995 cover story. Reprints of that article are available for $1.99 each. To order and pay by credit card, call 1-800-692-4000. NB

HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Or transmit your question to our CompuServe address: 76436,1735. Be sure to include your address and telephone number.

Because of the high volume of letters, we can answer only those that are chosen for publication.

Questions may be condensed, and writers will be identified only by initials and city.

Editorial

Budget Balance Is The Gateway

President Clinton frequently talks about balancing the federal budget, but he does so in a disturbingly vague way. He has suggested several times that he and Republican congressional leaders work together on a plan to achieve that goal. He has talked about "reducing the deficit in the right way."

The fact is that a plan to balance the budget is readily available: a proposed constitutional amendment mandating that policy. And Clinton surely must realize that the only "right way" to keep spending within income is to ensure it, program by program. It's really not all that complicated.

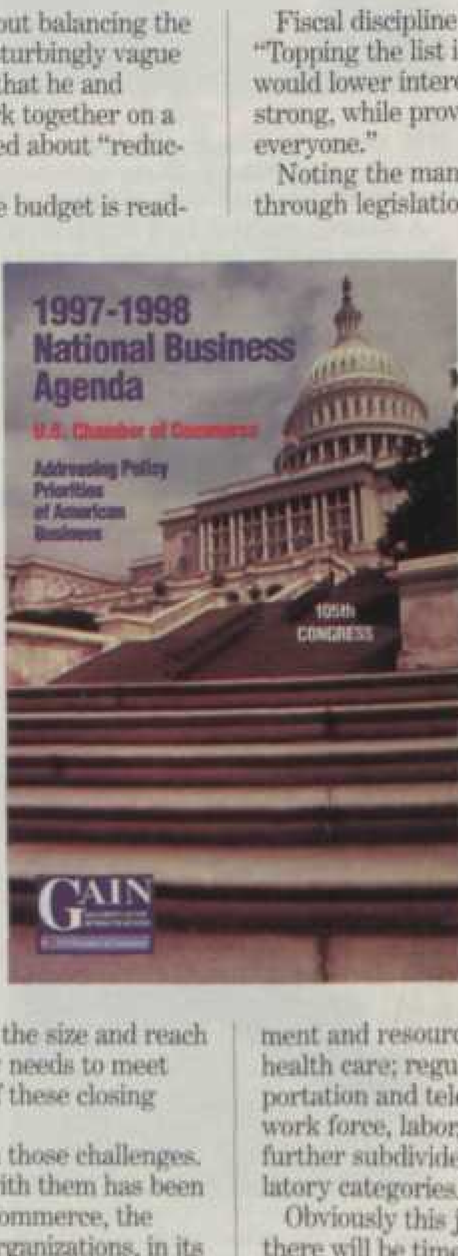
The president claims that the lower deficits of recent years testify to his commitment to eventual budget balance. But this slowdown in the flow of red ink is temporary, and growing deficits are not far down the road.

The president's continuing refusal to tackle the issue of budget balance head-on is disturbing because it suggests he will pursue the same course in the new Congress that he did in the last—endorsing the goal while fighting initiatives to get there.

That would be unfortunate. An unbreachable mandate to match spending to income is the vital beginning step to adoption of other policies, generally based on reducing the size and reach of government, that the nation sorely needs to meet the domestic and global challenges of these closing years of the 20th century.

Business is intimately familiar with those challenges. The most effective plan for dealing with them has been developed by the U.S. Chamber of Commerce, the most representative of all business organizations, in its 1997-1998 National Business Agenda.

This comprehensive listing of legislative and regulatory priorities, the federation says, "calls for policies that will help achieve a smaller, less intrusive federal government and trigger an explosion in jobs, wages, and business opportunities at home and abroad."



Fiscal discipline is paramount. The Chamber says: "Topping the list is balancing the federal budget, which would lower interest rates and keep America fiscally strong, while providing, in effect, a tax cut to benefit everyone."

Noting the many failed efforts to balance the budget through legislation, the agenda comments:

"The fiscal discipline of an amendment to the Constitution is necessary to break the federal government's borrowing habit. Because lawmakers can push paying for current programs into the indefinite future, they are able to postpone the full costs of their spending decisions. This leads to more spending than taxpayers are willing to fund."

With budget restraint setting the tone for less government, the Chamber agenda also calls for a fairer and simpler tax system, including lower capital-gains tax rates, regulatory and civil-justice reform, and trade and labor policies that would enhance U.S. competitiveness.

The initiatives on behalf of sound public policies will be carried out in nine general areas of top business concern—budget, taxes, and the economy; entitlement reform; education and training; environment and resources; global economics and trade; health care; regulatory and legal impediments; transportation and telecommunications infrastructure; and work force, labor, and benefits issues. Those areas are further subdivided into 63 specific legislative and regulatory categories.

Obviously this job is not easy, but it can be done. But there will be times when lawmakers will have to make politically risky decisions.

At those points, business people should be ready to reassure members of Congress making the tough calls that they are on the right course from both policy and political perspectives and that the vast majority of voters appreciate those efforts. ■

HOW THE AMERICAN DREAM GETS DELIVERED.

THE NEW 1997 CHEVY COMMERCIAL CUTAWAY VAN HAS A RUGGED, FULL-FRAME CHASSIS AND A WHOLE LOT MORE TO BUILD YOUR BUSINESS ON. For some, the American dream is all about making lots of dough running a business. If this is true for you, then you may need the right vehicle to help make it happen. Enter the new 1997 Chevy Commercial Cutaway Van.

The first thing we did was strengthen its structural support over our earlier model with a full-length steel-frame chassis design. Because whether you're loading or hauling, if your back goes out it's all over. Which is why you should team up your commercial "cube" body and whatever you're delivering with our rugged Cutaway Van chassis. You can count on it to more than rise to every occasion.

The workhorse of the new 1997 Commercial Cutaway Van is the power of the Vortec engines. With two V8s to choose from, extended-life spark plugs help make each Vortec gasoline engine so durable it can go up to 100,000 miles before its first scheduled tune-up.* What's more, there's even a 6.5 Liter Turbocharged Diesel V8 available. And drivers will appreciate the smooth change of gears of the heavy-duty 4-speed electronic automatic transmission.

To put the icing on the cake, we topped it off with safety features like 4-wheel anti-lock brakes and Automatic Daytime Running Lamps that come standard with all models. So you can fulfill the American dream in a safe and efficient manner.

FOR MORE INFO CALL TOLL FREE 1-888 WORK VAN.

THE NEW '97 CHEVY VAN

LIKE A ROCK

The Business Advocate

SUPPLEMENT TO Nation's Business FEBRUARY 1997

Published By
U.S. Chamber of Commerce

1996 Annual Report

See The Special Tax-Reform Survey

(Explanatory material begins on Page 9A.)

THE UNITED STATES CHAMBER OF COMMERCE

Dear Chamber Member:

This past year we strove to make the federal government less costly and less burdensome for American business and the public. With your vital support, we made critical progress toward those ends.

We won many significant battles on Capitol Hill and in the courts. Our most important victory was the retention of a pro-business Congress. This was accomplished largely as a result of a legal triumph that allowed us to reactivate our political-action program. Consequently, we achieved an impressive re-election rate of 75 percent for the congressional candidates we endorsed for the November elections. (For details, see Page 3A.)

Legal successes included the reaffirmation of a business's right to hire replacements for striking workers and a reining in of juries' and judges' abilities to impose excessive punitive damages. (For details on the Chamber's legal victories, see Pages 20A and 21A.)

Legislative victories included the enactment of more than a dozen pro-business laws, including welfare reform, limits on regulation, and taxpayer protections. (See details on Pages 4A to 7A.)

These public-policy and election gains were made despite fierce opposition from the AFL-CIO and efforts by that group and certain lawmakers to obscure the truth about proposals for addressing such problems as the impending insolvency of the Medicare system.

The Chamber's credibility as the "voice of business," our effectiveness as a lobbying organization, and our role as a public-policy leader were strengthened in 1996—a "victory" due in large measure to your involvement in the Chamber's mission. In fact, the Chamber was recognized in 1996 as one of the driving forces in helping to set public policy. *Roll Call*, a highly regarded newspaper covering Capitol Hill, named the Chamber one of the 10 most influential policy organizations.

A major goal that remained elusive in 1996 is a balanced federal budget. Be assured that we will redouble our efforts in 1997 to achieve this paramount objective for the future of our country.

With your active involvement, we will continue to fight for laws and policies that free American business to do what it does best: create jobs, markets, products, and services.

Sincerely,



Edwin A. Lupberger
1996-97 Chairman

Michael S. Starnes
1996-97 Vice Chairman

Richard L. Lesher
President

Grass Roots

Chamber's Power, Influence Grow

The strength of its grass-roots membership and its clout in Washington were never more evident for the U.S. Chamber of Commerce than they were in 1996.

Early in the year, the Chamber and its allies were challenged by organized labor and its boss, John J. Sweeney. The AFL-CIO declared all-out war on the pro-business Congress, vowing to spend more than $35 million in an effort to unseat Republican lawmakers in the November elections.

The Chamber called on its members to beat back the union surge, and it joined with other business organizations in a coordinated counterattack against labor's political campaign. The 33 national business groups, known as The Coalition, ran a successful television advertising campaign in congressional districts throughout the country to expose the unions' distorted attacks against pro-business lawmakers. The Coalition also mailed 2 million report cards on members of Congress to 44 congressional districts.

In addition, the Chamber helped lead the Coalition to Save Medicare's "Save Medicare Project," an effort to educate the public about the looming insolvency of the federal health-care program for the elderly and the disabled.

Also in 1996, the Chamber was able to revive its public-affairs program. In 1993, the Federal Election Commission had barred the Chamber from nearly all political communication, contending that the majority of Chamber members did not have a "significant" investment in the organization and, therefore, that the Chamber could not communicate with those members on political matters.

The Chamber sued the FEC, claiming that its ruling violated the organization's rights of free speech.

Less than a year after winning the lawsuit in late 1995, the business federation endorsed 324 congressional candidates in the 1996 elections, held 76 meet-and-greet sessions for candidates to interact with business executives, and conducted news conferences in 68 districts to announce Chamber endorsements of pro-business candidates.

The Chamber also maintained a tradition of aggressive efforts to encourage business people to vote and urge their employees to vote.

U.S. Chamber executives, left to right, Lonnie Taylor, Bruce Josten, Martin Regalia, Jeffrey Joseph, and Willard Workman participated in a satellite town meeting on the National Business Agenda. At left is a photo of a television ad that The Coalition, which the Chamber helped lead, ran as part of an effort to rally support for pro-business laws and lawmakers.

The Chamber's efforts paid off at the ballot box in November. It recorded a 75 percent success rate, with 242 of the 324 candidates the organization endorsed winning election to the 105th Congress. The AFL-CIO won only 24 percent of the races in which it had targeted a pro-business lawmaker for defeat.

The Chamber also showed its clout in the legislative arena in 1996. With support from its members, particularly the more than 50,000 participants in its Grassroots Action Information Network (GAIN), the Chamber helped win enactment of more than a dozen pro-business laws in the year. (See Pages 4A-7A for details.) Legislative activities during the year included testimony from Chamber witnesses before key congressional committees, visits to lawmakers' offices by Chamber issue specialists, and numerous letters to members of Congress stating the Chamber position on issues.

The Chamber also turned to its members in 1996 to help set the federation's legislative priorities for the next two years through the National Business Agenda survey. The business agenda has been presented to the 105th Congress and the White House.

Says Bruce Josten, the Chamber's senior vice president for membership policy, "The membership grass roots, the legislative expertise, the communications resources, and the programs and services of the U.S. Chamber make it one of the pre-eminent powers in Washington and on Capitol Hill."

Communication

Internet Presence Expands

In a move to increase its capabilities for communicating with its members and to heighten exposure for the organization and its activities, the U.S. Chamber of Commerce recently launched a home page on the Internet's World Wide Web.

The Chamber's home page, at *http://www.uschamber.org*, is a resource for information on various aspects of the business federation.

Visitors to the Chamber Web site can obtain information on legislation important to business, on Chamber programs and services, and on Chamber publications and broadcast services. Chamber members—in a "Members Only" section—can obtain more-detailed information through on-line press releases and articles that appear in *The Business Advocate*. Members also can use the Chamber site to link to other sites on the Internet, such as their U.S. representative's home page.

The site also serves as a conduit for sending electronic mail to Chamber legislative-issue managers.

■ Legislation

Capitol Hill Successes

The U.S. Chamber of Commerce helped win enactment of more than a dozen pro-business bills in 1996 during the second session of the 104th Congress.

Following are summaries of the business-backed laws the Chamber helped get enacted in 1996:

Welfare Reform

The new law revamping the 61-year-old welfare system was one of the Chamber's highest priorities and represents the organization's biggest legislative win of the year.

Welfare reform has been a critical element in the Chamber's long-term effort to reduce federal spending. The measure is expected to save taxpayers $55 billion over six years.

The statute turns over to the states, through block grants, several key federal welfare programs, including the largest—Aid to Families with Dependent Children. Under the new law, the program was renamed Temporary Assistance for Needy Families.

The new statute requires most able-bodied adults to find work within two years after they begin receiving benefits, and it limits lifetime welfare benefits to five years. Previously, there were no limits.

Among other provisions, the new law will:

■ Tighten eligibility rules for receiving Supplemental Security Income, a cash-benefit program for the elderly poor and for disabled individuals.

■ Deny most federal welfare benefits to illegal aliens and legal immigrants who are not U.S. citizens.

■ Require able-bodied adults ages 18 through 50 who have no dependents to work an average of 20 hours or more a week to receive food stamps. Individuals not working would be limited to three months of food stamps during a three-year period.

Health-Care Changes

The new health-insurance-reform law, also a top Chamber priority, makes it easier for small businesses to offer health-care coverage to their employees.

It does so by requiring insurers who sell coverage in a particular small-group market to offer plans to all small firms—generally, employers with two to 50 workers—in that market. In addition, it allows workers to carry their health insurance from job to job.

Among other provisions, the new law will:

■ Limit health insurers' ability to deny coverage to applicants on grounds of pre-existing health problems.

Bruce Josten, U.S. Chamber senior vice president for membership policy, urged Congress to pass regulatory-reform legislation at a Capitol Hill news conference in March, as lawmakers, including then-House Small Business Committee Chairwoman Jan Meyers, R-Kan., lent their support.

■ Require insurers to renew most policies.

■ Increase the health-insurance tax deduction for the self-employed and unincorporated businesses to 80 percent from the current 30 percent, in stages.

The deduction will increase to 40 percent in 1997, 45 percent in 1998, 50 percent in 2003, 60 percent in 2004, 70 percent in 2005, and 80 percent in 2006.

■ Allow by 1999—on a phased-in basis—750,000 individuals to establish tax-free medical savings accounts (MSAs) to pay for medical expenses. Only workers in companies with 50 or fewer employees, the self-employed, and uninsured individuals will be eligible to enroll in MSA plans.

Taxpayer Bill Of Rights

The new statute expanding the rights of taxpayers in dealing with the Internal Revenue Service—known as the Taxpayer Bill of Rights 2—is an extension of a taxpayer-bill-of-rights provision enacted in late 1988, which, among other provisions, established a process for taxpayers to appeal tax assessments and liens placed on their property by the agency.

The new taxpayers-protection act:

■ Establishes a taxpayer-advocate office in the IRS to help resolve disputes between taxpayers and the agency.

■ Increases to $1 million from $100,000 the maximum amount a taxpayer can collect in damages from the IRS if a court determines that the agency recklessly or intentionally disregarded laws or regulations in dealing with the taxpayer.

■ Allows taxpayers who prevail in disputes with the IRS to recover attorneys' fees and other court costs unless the agency can prove that its position was "substantially justified." To recover such costs under previous law, the burden was on the taxpayer to prove that the IRS's position was "not substantially justified."

■ Requires the IRS to notify a taxpayer 30 days in advance of changing or terminating an installment agreement between the agency and the taxpayer on the payment of late taxes.

Food-Safety Modernization

The new food-safety law modernizes the so-called Delaney Clause of the Federal Food, Drug and Cosmetic Act, a move long sought by the Chamber.

The Delaney Clause, adopted in 1958,

bars any trace amount of a food additive or residue of a pesticide in processed food if the substance has been found to cause cancer in laboratory animals. But most scientists agree that this "zero-risk" standard is obsolete because of advances in quantitative laboratory analyses in the decades since the measure was enacted.

The new law substitutes a "negligible" or "insignificant" risk standard—a one-in-a-million chance of getting cancer—for the current zero-risk standard.

The change will allow use of chemicals that pose an insignificant cancer risk but offer huge health benefits in other areas, such as protecting food from harmful bacteria.

Among other provisions, the law will:

■ Allow the Environmental Protection Agency to impose stricter pesticide-tolerance levels on foods that children eat in large quantities.

■ Require the EPA to act on registration applications for so-called minor-use pesticides within one year.

■ Pre-empt states from setting pesticide-tolerance levels that are more stringent than the federal standards.

At a Capitol Hill rally in July, Jeffrey H. Joseph, U.S. Chamber vice president for domestic policy, urged support for legislation that would have allowed employers and employees to form cooperative work teams to discuss various workplace issues. Bill sponsors Reps. Harris W. Fawell, left, R-Ill., and Steve Gunderson, R-Wis., who did not run for re-election in November, also spoke.

Tax And Pension Reforms

Tax-and-pension law changes were made as part of the Small Business Protection Act of 1996. The statute:

■ Will raise to $25,000 from $17,500 the amount that small businesses can deduct in the first year after purchase of capital equipment. The so-called expensing threshold began Jan. 1 and is being increased gradually over six years.

■ Extends and revises several tax provisions that have expired in recent years, including the research and experimentation credit, the tax break formerly called the Targeted Jobs Tax Credit, and the income exclusion for employer-provided educational assistance.

The research and experimentation credit, which expired June 30, 1995, is extended from July 1, 1996, through May 31, 1997. Businesses may take a 20 percent credit against taxes owed for certain qualified research costs that exceed a base amount.

The jobs tax credit, renamed the Work Opportunity Tax Credit, allows employers to take a credit of up to 35 percent of the first-year wages paid to workers from certain disadvantaged groups. The credit expired Dec. 31, 1994. It is reinstated from Oct. 1, 1996, through Sept. 30, 1997.

Under the exclusion for employer-provided educational assistance, which expired Dec. 31, 1994, and which is extended from Jan. 1, 1995, through May 31, 1997, employees can receive up to $5,250 exempt from income tax for education expenses, and employers can deduct that amount as a business expense.

■ Expands the eligibility rules for forming and maintaining Subchapter S corporations by, for example, increasing to 75 from 35 the number of individuals allowed to own shares in an S corporation.

■ Clarifies and modifies some rules governing independent contractors. The new provisions make it somewhat easier for employers to demonstrate that certain individuals are independent contractors and not employees.

Independent contractors are responsible for paying their own payroll taxes and do not receive benefits offered by any company for which they perform services. Employees, on the other hand, pay no more than half of their payroll taxes (the employer pays the rest) and may receive company-provided benefits.

■ Changes current pension laws to make it easier for small firms to set up and maintain retirement plans for their employees. A seven-part nondiscrimination test to determine who is a "highly compensated" employee, for example, was replaced with a two-part test.

Pension laws also were changed to allow firms with 100 or fewer workers to set up a new type of pension plan, called

Annual Meeting Set For Feb. 24

The U.S. Chamber will hold its 1997 annual meeting Feb. 24 at its headquarters in Washington.

The meeting will run from 12:30 to 2 p.m. Eastern time and will be broadcast by satellite throughout the country. There is no registration fee for U.S. Chamber members.

Members of Congress will discuss the legislative outlook for the 105th Congress. In addition, the four 1997 national honorees of the Blue Chip Enterprise Initiative will be recognized. Sponsored by Massachusetts Mutual Life Insurance Co., known as MassMutual—The Blue Chip Company, and by the U.S. Chamber and *Nation's Business*, the program recognizes small businesses that have overcome adversity and emerged stronger.

For the location of the satellite downlink site nearest you, or for more information about the Chamber's annual meeting, call (202) 463-5604.

the SIMPLE plan, that lets employees put up to $6,000 a year into an individual retirement account or a 401(k) plan.

For more information on SIMPLE plans, see the story beginning on Page 38 in *Nation's Business*.

Regulatory Relief

The Small Business Regulatory Enforcement Fairness Act strengthens the Regulatory Flexibility Act of 1980. It also gives Congress authority to review major agency rules before they take effect.

The Regulatory Flexibility Act requires federal regulatory agencies to examine a proposed rule's effect on small firms and to rewrite the regulation if it would have a significantly adverse impact.

Previously, agencies routinely ignored the law, primarily because there was no recourse against them if they failed to abide by it. The new law adds teeth to the act by allowing small firms to sue in federal court to ensure enforcement of the statute. It also establishes a regulatory ombudsman in the U.S. Small Business Administration to allow small companies to comment on federal agencies' compliance with the act and their application and enforcement of rules.

The law allows Congress to delay implementation of major regulations promulgated by agencies for 60 legislative days after final rules are drawn up.

Major rules are defined as those having an annual economic impact of more than $100 million. Congress could review such rules and vote to approve or reject them during the 60 days.

Business obtained another weapon for its fight against onerous federal regulations. That occurred with the enactment of a measure that requires the White House Office of Management and Budget to report to the public the cumulative annual costs and benefits of government rules.

The provision, known as the Regulatory Accounting Statement, was enacted as an amendment to fiscal 1997 spending legislation for the Treasury Department and the Postal Service.

Under the amendment, the OMB must analyze the direct and indirect impacts of federal rules on the private sector, state and local governments, and the federal government. It also must

Lonnie Taylor, left, U.S. Chamber vice president for congressional affairs, talks with House Majority Leader Richard K. Armey, R-Texas, about business people's legislative concerns.

Business Ballot

Members Helped Gauge Economy

U.S. Chamber members' responses to Business Ballot polls during 1996 served as a barometer for the U.S. economy last year and into 1997.

The Chamber uses the bimonthly results of three economic-outlook questions in the poll to develop its Business Confidence Index, which it reports to the media, members of Congress, and the White House.

The questions ask Chamber members for their six-month outlook for their firms' sales and employment and the economy in general. The poll also asks questions about other timely matters, frequently dealing with legislation pending on Capitol Hill.

The Business Confidence Index dropped to its lowest level of the year, 52.3, in December. The previous low was in June 1995, when the index was 52.2. The December index was down from October's 53.5. (See the accompanying chart.)

Last year started on a down note, with the February index at 53.5 following President Clinton's vetoes of Republican balanced-budget bills in December 1995 and January 1996 and a shutdown of many government agencies. (The index had been 56.8 in the final poll for 1995.)

Business's confidence in the economy reached its peak for the year in April when the index rose to 56.2.

But the index fell to 54.3 in June and increased only slightly, to 54.8, in August, before falling again in October.

"Concern about consumer spending and the federal government's ability to deal with pressing economic problems continued to weigh heavily on the business outlook" throughout 1996, said Martin A. Regalia, the U.S. Chamber's chief economist.

Respondents were more optimistic about the outlook for their own firms' prospects for increasing sales and adding jobs throughout the year than they were about the economy in general. In each of the six polls taken during the year, more respondents saw the economy heading down than heading up.

Be sure to respond to this month's special U.S. Chamber survey on tax reform.

project the potential benefits of individual rules it estimates will cost the economy more than $100 million annually.

Line-Item Veto

As of Jan. 1, the president has the authority to strike specific spending items and limited tax benefits—tax breaks that lose revenue and benefit fewer than 100 individuals or companies—in appropriations bills.

Under the Chamber-supported legislation, Congress will be able to reinstate any items eliminated by the president by passing a bill to do so. The president could veto that bill, but Congress could override the veto with a two-thirds majority vote in each house.

The line-item-veto law is scheduled to expire Jan. 1, 2005.

Farm Flexibility

The Chamber won a major victory with the enactment of a new farm law that frees millions of previously idled acres of land for crop production.

The statute eliminates the old law's acreage-idling program and gives farmers control over all planting decisions. Under the acreage-control program, the U.S. Agriculture Department determined which and how many acres should be idled.

The new law replaces so-called deficiency payments to farmers with fixed payments that will be phased out over seven years. Under the farm law that had been in effect since 1990—the last time the agriculture statute was reauthorized—the government set target prices for certain crops. If market prices fell below the target prices, farmers received a deficiency payment from the government.

Under the new payment plan, farmers who participated in the deficiency-payment programs at any time in the past five years will receive fixed, government-set payments on a declining schedule for seven years. Farmers who had not taken part previously will be ineligible for such payments.

China Trade

The Chamber scored an important trade victory when the House defeated an attempt to deny China's most-favored-nation trade status.

Lawmakers voted to reject a congressional resolution that would have rescinded President Clinton's decision to extend MFN status for China until July 1, 1997. China's MFN status had been set to expire July 1, 1996.

MFN status is routinely granted to most of the nations with which the U.S. trades; it does not confer special trade privileges.

Among the U.S. Chamber members who testified before Congress on behalf of the business federation in 1996 were, top to bottom, Andy Hines, then-president of Emerald Green LawnCare, of Athens, Ga.; Richard A. Schart, manager of transportation purchasing with J.C. Penney Co.; and board member Scott Holman, owner and president of Bay Cast Inc., of Bay City, Mich.

The resolution of denial of MFN for China was prompted particularly by that government's tolerance of human-rights abuses.

While the Chamber also is concerned about China's human-rights abuses, it contends that denying or restricting the country's trade status would hurt the factions in China most sympathetic to political and economic reforms.

Such sanctions also would hurt U.S. economic interests and put the United States at a substantial competitive disadvantage to its major foreign-trade partners, which are unlikely to impose similar trade restrictions, according to the Chamber.

Government Contractor Protection

The business federation was instrumental in killing a legislative provision that would have severely limited the ability of government contractors to resolve disputes with the federal government.

The provision was an amendment to bar the use of federal District Courts as a forum for resolving disputes between the federal government and its private-sector contractors. Under the proposal, a company could contest the procurement-bid process only by filing a challenge in the U.S. Court of Federal Claims or by requesting an administrative review by the General Accounting Office; both are in Washington, D.C.

Under a compromise House and Senate bill, lawmakers agreed to retain the so-called Scanwell jurisdiction for four years and to allow equal jurisdiction by the Court of Federal Claims.

Scanwell jurisdiction relates to a 1970 appellate court decision that upheld the authority of the federal District Courts to decide challenges to awards of government contracts.

Other Victories

The Chamber also backed legislation that increases the amount of income retirees may earn before they begin losing Social Security benefits and a bill that reforms business provisions in the 1986 immigration law. It also helped defeat a provision in a bill to reauthorize the federal Safe Drinking Water Act.

The new Social Security measure increases the earnings limit over six years to $30,000 for recipients 65 and over. The limit will rise to $12,500 this tax year and increase by $1,000 a year until 2000, when the limit goes to $17,000; in 2001 it will rise to $25,000, and in 2002 the limit will increase to $30,000. The previous limit was $11,520.

Social Security recipients 65 and over lose $1 in Social Security benefits for every $3 earned over the ceiling. Those 62 to 64 lose $1 in benefits for every $2 earned over a lower limit, which is $8,640 in 1997.

In legislation reauthorizing the Safe Drinking Water Act, the Chamber successfully stripped a provision that would have allowed public-water-system authorities to sue any person whose activities—intentional or unintentional—resulted in or contributed to any contaminants in any amount in water sources used for drinking.

The new immigration law makes it more difficult for the federal government to sue employers who inadvertently discriminate against individuals in seeking to verify their employment eligibility. A 1986 statute required employers to verify workers' eligibility but imposed fines on employers who discriminated against individuals based on their national origin.

■ Retirement Plans

Fidelity Ready To Assist Firms

In one of its most important member-benefit moves ever, the U.S. Chamber teamed up with Fidelity Investments in 1996 to offer a package of retirement plans and services to the Chamber's member companies.

Primarily designed for firms with up to 100 workers, the program, known as the U.S. CHAMBERplan for Retirement, makes it much easier for small businesses to offer their employees high-quality, cost-effective retirement savings plans. Included in the program are SEP-IRA, Keogh, SIMPLE, and 401(k) plans.

Since the program began, these questions have been among those asked most frequently by business people:

Do companies have to be members of the U.S. Chamber to participate in the U.S. CHAMBERplan for Retirement?

Yes. Companies can sign up for the CHAMBERplan for Retirement at the same time they establish a Chamber membership or at any time during their membership. The cost of an annual Chamber membership is based on the size of the company and the type of membership desired. For more information on joining the Chamber, call the organization's toll-free membership number at 1-800-822-5895.

Edward C. "Ned" Johnson III, left, Fidelity's chairman of the board and chief executive officer, and U.S. Chamber President Richard L. Lesher joined forces in 1996 to make retirement plans more affordable for U.S. Chamber-member companies.

What does it cost for a small company to sign up for the U.S. CHAMBERplan for Retirement?

Costs vary depending on the type of plan, the size of the company, and the number of employees. If a company selects the 401(k) plan option, for example, the firm pays $1,400 annually and $28 per plan participant a year regardless of the company's size. The annual fee for the plan sponsor in the CHAMBERplan 401(k) is very competitive compared with the $3,000 to $6,000 annual fees charged for similar plans on the market.

For details on the costs of other retirement plans offered under the program, call Fidelity at 1-888-RET-PLAN (1-888-738-7526).

Besides a full range of retirement plans, what other advantages does the U.S. CHAMBERplan offer companies?

Companies now have a single and dedicated source for retirement-plan information. Fidelity's Chamber Resource Center is staffed by retirement specialists who have undergone extensive training so they can help business owners find appropriate retirement programs for their companies.

This access to information, along with the range of retirement programs in the U.S. CHAMBERplan for Retirement, makes it simpler and less confusing for companies of all sizes to establish plans.

Why did Fidelity and the U.S. Chamber team up in this business relationship?

Fidelity and the U.S. Chamber are offering these retirement plans because it has been difficult for small businesses to offer their employees such plans. In fact, about 80 percent of small businesses don't offer this important employee benefit. The CHAMBERplan for Retirement makes it possible for more small companies to do so.

As a result of its extensive investment in technology and its experience in providing small firms with retirement plans, Fidelity is able to offer small-business owners a comprehensive yet streamlined retirement approach that is easily administered and cost-effective. Fidelity manages all of the employee education and record-keeping requirements.

How is Fidelity equipped to handle the administrative aspects of the retirement plans?

Fidelity's investment in technology includes its extensive computer system to handle the record-keeping and administrative services for the retirement-plan sponsors, a sophisticated phone bank of trained retirement specialists, and a state-of-the-art mail facility and automated warehouse in Covington, Ky., just across the Ohio River from Cincinnati, that operates 24 hours a day, seven days a week.

This facility prints daily trade confirmations, customer statements, redemption and dividend checks, credit-card statements, and more. Fidelity is the largest first-class mailer in the Cincinnati area.

For more information about the Fidelity U.S. CHAMBERplan for Retirement, call the Chamber Resource Center at 1-888-RET-PLAN (1-888-738-7526).

■ United Way

Chamber Sets Donation Record

The U.S. Chamber continued to set an example of community involvement for state and local chambers, organizations, and businesses with its participation in the 1996 United Way campaign.

A record 92 percent of the Chamber's more than 360 employees at its headquarters contributed to United Way of the National Capital Area, which is the umbrella group for 850 charities and community organizations in the Washington, D.C., region. The Chamber, which has been participating in the United Way's annual campaign for several decades, raised more than $52,000 in 1996.

"I'm proud of the employees of the U.S. Chamber of Commerce," said federation President Richard L. Lesher.

WHAT TAX REFORM WOULD MEAN FOR YOU

DISSATISFACTION WITH the federal tax system has resulted in important tax-code changes in nine of the past 21 years: 1976, 1978, 1981, 1982, 1983, 1985, 1986, 1990, and 1993, with other changes in between. Yet, perhaps partly as a result of the sheer frequency of changes, taxpayer discontent seems to have mounted.

Not only do critics cite the weight of the overall tax burden, but they also point to the way taxes are collected. Specifically, they note the system's high marginal tax rates; its double, triple, and sometimes quadruple taxation of the same income; its high degree of complexity; its inherent bias against savings; its special provisions for certain economic activities; its high cost of compliance; and its propensity to restrain faster long-term economic growth.

With a strong sense that the federal tax system is hopelessly broken, politicians have become increasingly receptive to the public's call for tax reform. As a result, several major tax-system changes have been proposed, ranging from relatively straightforward alterations of the current tax code to replacement of the income-tax system with an entirely new tax system.

The purpose of this report is to discuss the inherent trade-offs in tax reform and to identify the major elements of four approaches to reform: the national retail sales tax, the value-added tax, the flat tax, and the unlimited savings allowance tax. We hope this report will help you in answering the tax-reform survey accompanying this magazine.

Please respond to the related U.S. Chamber member survey that arrived in your mail with this issue of *The Business Advocate* and the February issue of *Nation's Business.*

Agreed-Upon Principles

The primary purpose of a tax system is to raise revenue to provide for essential public goods and services. While there may be debate over what constitutes an essential public good or service and thus over how much an economy should be taxed, most economists agree that there are certain principles that a "good" tax system should embody.

Efficiency

A tax system is efficient when the cost of collection and compliance is low relative to the amount of revenue raised. For example, spending $10 to collect $100 in tax revenues is more efficient than spending $50 to collect the same amount.

Neutrality

The degree to which the tax system distorts economic decision making should be minimal. How is economic decision-making altered by the tax consequences of a particular activity? Are sound economic fundamentals driving economic decisions, or are individuals basing their decisions largely on the tax ramifications?

Simplicity

Ease of understanding and compliance should be widespread, allowing ordinary citizens to handle their own taxes with a minimum of outside assistance. Executives of firms of any size should be able to understand the tax code easily and to apply it accurately to their businesses.

Fairness

Are those in similar economic circumstances paying similar taxes? This notion, called "horizontal equity," is relatively straightforward. Another type of fairness, "vertical equity," is more difficult to measure; it suggests that those who are in dissimilar circumstances should pay appropriately different amounts of tax.

These notions are very subjective, of course, and depend upon how "similar," "dissimilar," and "appropriate" are defined. Nevertheless, the tax system should be seen as balanced and evenhanded.

The degree of progressivity or regressivity is another measure of fairness in a tax system. A regressive tax structure exists when lower-income individuals pay a higher proportion of their income in taxes than do higher-income taxpayers. Conversely, in a progressive tax structure, higher-income individuals pay a greater proportion of their income in taxes than do individuals with lower incomes.

Certainty

A tax system should provide a reasonable degree of certainty for taxpayers.

Changes to the tax code should not be capricious, frequent, or unanticipated. Households and businesses should know how much will be due and when. They should be able to project their tax liability in coming years under various sets of circumstances.

At times, some of the principles of a "good" tax system may be at odds, but, in general, the best tax systems will score reasonably well on these criteria.

One key to understanding our tax system is to recognize that it provides incentives for businesses and households to behave in particular ways. As such, it can be used to promote specific social goals or to advance political agendas.

Often, these social or political goals run counter to the aforementioned principles and consequently force trade-offs. The result can be a tax code that violates the principles of sound taxation and imposes numerous unintended consequences. This can cause significant economic damage.

In designing a new tax system, we should be aware of the incentive structure being created and the likely response from a dynamic marketplace.

Another key point for those wishing to construct a new system, or significantly alter the existing one, is the choice of a tax base.

Should we, for instance, tax income or consumption? If we choose income, should it be income minus a personal exemption (and of how much?) or income minus a personal exemption minus savings? Should we subtract charitable contributions, mortgage interest, or state taxes? If we believe that consumption should be taxed, should we tax retail sales or "consumed income"?

Choices made about the tax base will have a significant influence on the tax rate. As we exclude a greater range of activities from taxation, tax rates will have to rise to bring in the same amount of tax revenue, at least in a conservative, static sense (that is, ignoring any impact on economic growth).

Other questions also arise: Should a single tax rate be used, or are multiple tax rates preferable? Should different rates apply to households and businesses?

Finally, another important consideration for any tax proposal is how to get from here to there and over what period. Regardless of the long-term benefits that may accrue from a new tax system, making the transition from the current income tax to a

different tax system will undoubtedly create "winners" and "losers."

How these winners and losers would be treated could make the difference between moving to a new system and keeping our current system. Rules for moving from one system to another have yet to be developed for many of the tax-reform proposals, but they will be of paramount importance and should be examined closely before a new system is adopted.

Retail Sales Tax

A sales tax is generally any system that imposes a tax based on the sales prices of goods and services. Under a broad-based sales-tax system, the tax is assessed on all sales of goods and services, no matter who receives them or what the purpose of the purchase is.

When a sales-tax system's base is narrowed so that only retail sales of goods and services are subject to tax, the system is commonly referred to as a retail sales tax.

As the name implies, only sales of goods and services to the ultimate retail customer are subject to the tax. This base can be constricted by exempting certain types of consumers or transactions or specific items and services.

For example, governmental units and not-for-profit organizations, items purchased for resale, food and medicines, and medical and dental services could be exempted from the tax.

Retail-sales-tax rates are customarily stated as a percentage of the sales price of the good or service. This makes the tax liability easy to calculate and its burden highly visible to the public. Retail sales taxes are usually collected from the retail purchaser by the seller of the good or service at the time of the transaction. The seller then remits the sales tax collected to the taxing authority and is also responsible for properly accounting for the tax and for filing required tax returns or reports.

Consequently, it is the seller who would be subject to an audit for compliance with the tax law.

How It Would Work

A national retail sales tax that would replace the current federal income tax would eliminate the requirement to file federal income-tax returns. Generally, the only returns that would be necessary would be reports by retailers who collect sales taxes.

The underground economy and illegal income-generating activities theoretically would be less able to escape taxation under a national sales tax because income would not be taxed when it was earned but rather when it was used.

However, under a retail-sales-tax system, there would be only one point where the tax was imposed, collected, and reported. This reliance on one level of economic activity—retail sales—could lead to other forms of noncompliance.

Generally, sales taxes are "border-adjustable." Under a national retail sales tax, a tax would be imposed at the time of final sale within the United States regardless of where the product was manufactured or how it came to be within the country.

In other words, imports would be subject to sales tax if the final sale took place in the United States, and conversely, exports would not be taxed because the retail sale would occur outside the United States. Likewise, an item passing through the United States would not be subject to a national sales tax because there would be no final retail sale within the country.

The Effect On Take-Home Pay

The take-home pay of workers would increase with a national retail sales tax that replaced the federal income tax and, consequently, eliminated payroll withholding.

Workers would have more cash in hand to save or spend at their discretion, but their purchases would be more expensive.

A national retail sales tax could be inflationary, especially when inflation is measured by price indexes that include sales taxes in their calculations, such as the Consumer Price Index.

However, this inflationary pressure may be offset partially through the elimination of income taxes. Product prices would no longer embody business income taxes, and households would no longer have federal income taxes withheld. Theoretically, the retail sales tax should impose only a "one-time" jump in prices; it would not be the source of persistently higher inflation.

Retail sales taxes are generally regressive because individuals at the lower end of the income scale tend to spend a greater fraction of their total income on retail purchases than do upper-income individuals. Such regressivity could be mitigated by rebates, exemptions, or allowances.

Potential Drawbacks

Changing to a national retail sales tax from the current federal income tax would penalize those with accumulated

savings. The penalty would occur when the accumulated savings, which had already been taxed under the old income-tax system, were taxed again under the new sales-tax system. This would in effect tax the savings a second time, creating a generational shift in the tax burden.

Income taxes and sales taxes are very different. The differences would preclude the integration of the two while the current federal income tax was being phased out and a national sales tax was being phased in.

Unless a total abandonment of the income tax occurred simultaneously with a complete implementation of a sales tax, two separate and distinct tax systems would be in operation at the same time. This could lead to greater complexity and increased taxation, at least during the transition.

Moreover, the only way to protect against having the federal income-tax system remain in effect after the creation of a national retail sales tax would be to repeal the 16th Amendment to the Constitution, which authorizes Congress to levy an income tax.

Value-Added Tax

A value-added tax (VAT) is generally imposed and collected on the value that is added to a product or service at every stage in the production and distribution processes.

Although there are several ways to compute the taxable base for a VAT, the amount of value added is generally the difference between the value of a business's sales—or outputs—and its purchases used in production—or inputs.

The two most common methods of computing a value-added tax are the credit-invoice method and the subtraction method. Despite different procedures for calculating tax liability, the two methods are economically equivalent and should yield identical revenues.

The Credit-Invoice Method

Under the credit-invoice method, the system of choice of most countries that have adopted a VAT, a flat-rate tax is imposed on the sales price of each good or service sold. Businesses are allowed to claim a credit for all VATs previously paid on such goods or services.

The VAT credit prevents a particular stage of production or distribution of a good or service from being taxed more than once.

Therefore, the net tax paid by a business is based on the value it adds to a good or service during that stage of production or distribution.

In theory, the cumulative amount of VAT paid with respect to a good or service from all levels of production and distribution should be the same as if the VAT rate were applied to the retail sales price of that good or service to the ultimate consumer.

The Subtraction Method

Under the subtraction method, a single, flat rate of tax is levied on the difference between a business's annual taxable sales and its purchases used in production and distribution.

Businesses would be able to deduct the cost of all materials, capital expenditures, inventory, and most services in the year they were purchased. However, employee compensation, including wages and health and retirement benefits, would not be deductible.

Similarities

The subtraction and credit-invoice methods are similar because they both measure value added to goods and services by comparing outputs (sales) with inputs (purchases). Both methods would exempt from tax any interest, dividends, and proceeds from the sale of stock; they also would disallow deductions for interest, dividends, and stock purchases.

In addition, both methods of calculating a VAT are "border-adjustable." U.S. export sales would not be subject to a U.S. VAT, although they could be subject to a VAT in the country to which the products or services are exported. Imports may or may not be taxed by their country of origin but would be subject to a U.S. VAT.

Differences

The two methods differ in that the subtraction method applies the tax rate to the net amount of value added (sales minus purchases), whereas the credit-invoice method taxes gross sales but provides credits for taxes paid on gross purchases.

In determining a business's tax liability, the subtraction method relies on income-tax or financial-accounting records, while the credit-invoice method relies on sales records and purchase invoices.

Potential Drawbacks

Replacing the current income-tax system with a VAT could have several potential drawbacks.

First, many European economies have both a VAT and an income tax. Unless the 16th Amendment to the Constitution authorizing the government to levy an income tax were repealed, the possibility would exist that both an income tax and a VAT could be levied in the United States.

A second possible drawback, some

analysts believe, is that a VAT would be inflationary. They say prices of goods and services would be increased by the cumulative amounts of VAT imposed at various levels of production and/or distribution. That inflationary impact, however, could be offset partially through the repeal of the income tax. Again, implementation of a new tax system would cause a one-time change in prices but not persistent inflation.

Third, a VAT could be regressive because lower-income individuals tend to consume a higher percentage of their incomes than do higher-income individuals.

This concern could be addressed by implementing a VAT system that exempted certain necessities, such as food, housing, and health care, or that provided rebates to low-income individuals.

While these provisions would add more complexity to the tax system, they might alleviate the concerns of some critics.

Furthermore, to prevent undue hardship to those businesses with unamortized assets at the time of conversion to a VAT system, rules for the transition to the new system would need to be enacted. Those rules would add more complexity to the new system.

The Flat Tax

The term "flat tax" historically referred to the rate of tax within a tax system. By definition, it meant that a tax system had one tax rate for all taxpayers.

The term today, however, refers not only to the rate structure but also to an entire system of taxation.

The flat tax is a type of value-added tax collected from both businesses and individuals. It is a business transfer tax combined with an individual wage tax.

The Business Tax

For businesses, the tax base would be gross receipts minus inputs used in production minus wages (the value added by businesses). For individuals, the tax would be levied on wages received (the value added from labor).

A business's form of organization, such as corporation, partnership, or sole proprietorship, is irrelevant in a flat-tax system because the tax would be imposed at the activity level, not the entity level.

The business tax base would consist of gross receipts minus (1) the cost of all inputs (that is, the cost of all goods, materials, and services purchased for the purpose of making the products or performing the services); (2) wages, salaries, and pensions paid to workers, but not other fringe benefits; and (3) capital investments, such as spending for plants, equipment, and land.

The result would be the value added by a business, which would then be multiplied by the tax rate to yield the business's tax liability. Sales of capital investments, equipment, and land would be included in gross receipts because they would have been fully expensed—and thus not taxed—when originally purchased.

Border Adjustability

Unlike the VAT, the flat tax is not "border-adjustable." Under the flat tax, business gross receipts would include the value of exports, and therefore any tax would be embodied in the price of the exported good.

Gross receipts would also include the revenue from domestic sales of imports brought into the United States. However, the cost of the imports sold in the United States would be deductible as an input cost. Depreciation deductions would not be permitted—nor would they be necessary—under the flat tax since all capital investments would be treated as expenses. Businesses would reduce their annual receipts by the entire amount spent on capital investments in a particular year.

Any resulting negative income would be carried forward to offset positive income in future years, with no time limitations on the carry-forward.

The Individual Tax

The individual tax liability under the flat tax would be determined by multiplying the wage base by the tax rate. The wage base would include wages, salaries, and pension benefits received minus personal and dependent allowances.

Beyond these allowances, there would be no exemptions, exclusions, deductions, or credits under the individual wage tax. Because they would be included in the business tax base, pension contributions and employee fringe benefits would not be included in the individual tax base.

The Question Of Exemptions

Investment income—interest, dividends, and capital gains—would be excluded from the individual tax base because the income used to purchase these assets theoretically would have been taxed when it was originally earned.

Although the basic flat-tax plan does not have exemptions, exclusions, deductions, or credits, some analysts have proposed items for certain activities or groups.

Some of the items suggested include a deduction for home-mortgage interest, a deduction for state income taxes, a charitable-contribution deduction, a low-income allowance, and various levels of personal and dependent allowances.

However, for each exemption, exclusion, deduction, or credit, the tax base would shrink and a higher tax rate would be required to raise the same amount of revenue. Some analysts have criticized the flat tax as not being progressive enough, while other observers have claimed that it is regressive. In either case, the system is criticized for being too generous to individuals with high incomes.

Despite its single rate, the flat tax can be made more progressive through the use of personal allowances and dependency deductions. By comparison, tax systems with graduated tax rates—higher marginal rates at higher income levels—may appear progressive but be much less so in practice. This could come about through deductions used predominantly by upper-income groups.

Possible Drawbacks

The flat tax has been proposed as a complete replacement of the current corporate and individual income tax; however, it would not eliminate payroll, excise, or federal estate and gift taxes. These taxes would continue to exist, and all the ancillary return filing and payment requirements would remain in effect. Accordingly, all the administrative burdens associated with these taxes would remain.

The implementation of the flat tax for some industries, such as manufacturing, would be relatively straightforward. Its application to other industries, such as financial services, would be much more difficult without changes in the way business is currently conducted.

The current practice in the financial industry of bundling products and services together and including net amounts in income is permitted under the current federal income tax system but would be problematic under the flat tax.

With the flat tax, banks would not pay tax on part of their income unless their products and services were accounted for separately. For example, bank earnings are basically the result of the net between the interest rates at which banks lend and borrow and reflect little income from services such as check collection or access to automated teller machines.

Some of the transition problems that would have to be addressed revolve around treatment of the bases of previously acquired business assets, inventory, existing indebtedness, state and local bond issues, nonfederal income-tax systems, retirement assets, the value of housing, alimony agreements, and pre-enactment tax attributes.

While these items and the many other questions that would appear are not insurmountable, the price would be a higher tax rate to provide for transition relief.

Unlimited Savings Allowance Tax

The unlimited savings allowance (USA) tax would institute a VAT on businesses while relying on the basic structure of the current income tax to levy a tax on individuals based on the income they consumed.

The USA tax system would retain current estate and gift taxes and the current payroll taxes, although businesses and individuals could claim a credit for payroll taxes. On the other hand, the alternative minimum tax would be repealed.

The Business Tax

Businesses would be subject to a subtraction-method VAT. (See the section on the value-added tax, beginning on Page 12A.) Under such a system, employee compensation would not be deducted, but capital spending and inventory would be expensed immediately. If a business's purchases were to exceed its taxable receipts in a particular year, the resulting loss could be carried forward to offset future years' taxable income.

The Individual Tax

The individual tax component would use the current income concepts with some important changes. The tax would be calculated by applying the applicable tax rate(s) to the difference between gross income and several permissible deductions, which would include an unlimited savings deduction. Therefore, individuals would not be taxed on the amount they saved but only on the portion of income consumed. Gross income would include wages, most employer-provided fringe benefits, interest, dividends, proceeds from stock sales, pensions, annuities, rents, royalties, certain Social Security benefits, alimony, child-support payments, and life-insurance proceeds.

Amounts borrowed theoretically would be included in income, but only to the extent they exceeded certain generous exemptions.

Certain items would be excluded from gross income, including tax-exempt bond interest, gifts and bequests, and certain government transfer payments (such as food stamps), health-care reimbursements, some Social Security benefits, military pay, and veterans' benefits.

How Savings Would Be Treated

Taxpayers could claim an allowance for a net increase in their savings during the year. Qualified savings assets generally would consist of stocks, bonds, retirement accounts, bank accounts, life-insurance policies, certificates of deposit, and interests in partnerships and sole proprietorships.

Investments in land, buildings, and other tangible assets, as well as cash on hand, would not be eligible for the savings allowance.

No limit would be placed on the savings allowance. But the shifting of savings from one form to another would not qualify as a net increase in savings.

While an increase in an individual's net savings would be exempt from tax, a decrease in net savings would be subject to tax. A taxpayer who withdrew or sold previously deducted net savings would be taxed to the extent the result exceeded amounts otherwise saved during the year.

In addition to the unlimited savings allowance, taxpayers could claim a family living allowance, personal and dependency exemptions, and certain itemized deductions. The amount of the family living allowance would depend upon the taxpayer's filing status.

Deductions would be allowed for home-mortgage interest, charitable contributions, alimony, and qualified education expenses. Deductions, however, would no longer be allowed for medical expenses, state and local income taxes, property taxes, interest on home-equity loans, unreimbursed employee-business expenses, and moving expenses.

Graduated Rate Structure

An individual's tax liability would be determined by applying his or her taxable income to a graduated tax-rate structure, which would promote progressivity.

Because of the unlimited savings allowance, however, progressivity could not always be assured: A high-income, high-saving individual might pay a lower fraction of income in taxes than a lower-income individual with little or no savings.

Certain low-income taxpayers would be eligible for a modified earned-income tax credit. All other existing tax credits, such as the foreign tax credit and the child-care and dependent-care credit, would no longer be allowed.

Conclusion

The four most widely discussed approaches to tax reform—the national retail sales tax, the value-added tax, the flat tax, and the unlimited savings allowance tax—all have positive and negative aspects. Those aspects will need to be weighed carefully in considering a new tax system.

International

Leaders Look To Chamber

International leaders often turn to the U.S. Chamber to get their messages out to U.S. businesses. Here's a sample of the foreign and U.S. trade officials hosted by the Chamber in 1996.

Ruth Harkin, president of the Overseas Private Investment Corp., and Hugo Paemen, European Union ambassador to the U.S., were among the speakers at the Chamber's International Forum meetings in 1996.

Jason Chih-chiang Hu, right, accepts a copy of *Meltdown On Main Street* from U.S. Chamber President Richard L. Lesher, whose book details the rising influence of small business. Hu is the representative for the Taipei (Taiwan) Economic and Cultural Representative Office in the United States.

Russian Gen. Alexander Lebed, center, discusses business and politics with U.S. Chamber President Richard L. Lesher during a meeting at the Chamber. Lebed is a leading candidate to succeed Boris Yeltsin as president of Russia. At the left is Lebed's interpreter.

Basdeo Panday, prime minister of the Republic of Trinidad and Tobago, left, talks with U.S. Chamber board member Dennis W. Sheehan, chairman, president, and CEO of AXIA Inc., of Lombard, Ill., before addressing business leaders about trade and economic relations between the U.S. and his country.

Prime Minister of Ukraine Pavlo Lazarenko, left, and Willard A. Workman, U.S. Chamber vice president/international, participate in a meeting of the U.S. Chamber's Ukraine Working Group.

Aleksander Kwasniewski, president of the Republic of Poland, talked about political and economic reforms in Poland at a Chamber International Forum meeting.

Argentine President Carlos Menem told U.S. business leaders at a Chamber International Forum meeting about the dramatic economic improvements that have occurred in his country over the past seven years. He added that more economic growth can be expected as further privatization of government and other reforms take place.

■ Testimonials

Lawmakers Thank Chamber For Its Support

The value of an organization's work is often best defined by others. These comments from members of Congress reflect the Chamber's key role on business-related issues in 1996.

"I have worked with [the U.S. Chamber] for the four years I've been in the U.S. Senate. I recognize the importance of what it means to the country and what it means to small business."

—Sen. Lauch Faircloth, R-N.C.

"I want to thank ... the Chamber's strong membership for all the help and guidance [it has] provided during this [104th] Congress. The Chamber has shown true leadership throughout our legislative battles. ... Your budget activism combined with your efforts to bring regulatory relief to small businesses as well as meaningful product-liability reform has shown the Chamber to be an effective advocate for the business community and for sound economic policies."

—Senate Majority Leader Trent Lott, R-Miss.

"I wanted you to know how much I value the support and help I have received from the Chamber since I became chairman of the Senate Committee on Small Business. When I've turned to the Chamber for assistance, you've always been there."

—Sen. Christopher S. Bond, R-Mo.

"Thank you for your tremendous help in our historic budget debate and for your support of the Budget Resolution Conference Report. We have frequently asked for your help ... [on] saving the future of our country, and you have delivered. I greatly appreciate it."

—Rep. John R. Kasich, R-Ohio, Chairman, House Budget Committee

"I'm looking forward to continuing to work with the U.S. Chamber of Commerce because ... the Chamber keeps people like me informed so we don't get blindsided."

—Rep. Mark Souder, R-Ind.

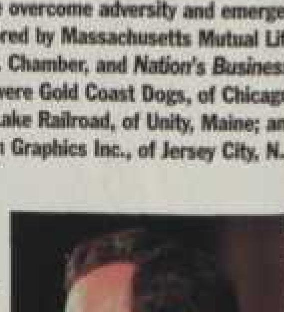
Snapshots

Highlights Reflect Chamber's Depth In '96

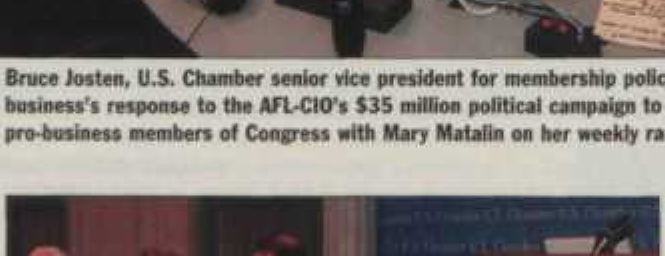
Highlights of the past year ranged from the U.S. Chamber's leading role in combating the AFL-CIO's campaign to unseat pro-business lawmakers to the selection of four businesses from around the country as national honorees in the Blue Chip Enterprise Initiative.

Rena and Richard Pocrass's company, Chocolates à la Carte, of Sylmar, Calif., was one of four national honorees in the 1996 Blue Chip Enterprise Initiative. The program recognizes small firms that have overcome adversity and emerged stronger. It is sponsored by Massachusetts Mutual Life Insurance Co., the U.S. Chamber, and *Nation's Business*. The other honorees were Gold Coast Dogs, of Chicago; Belfast & Moosehead Lake Railroad, of Unity, Maine; and Cunningham Graphics Inc., of Jersey City, N.J.

Bruce Josten, U.S. Chamber senior vice president for membership policy, discusses business's response to the AFL-CIO's $35 million political campaign to unseat pro-business members of Congress with Mary Matalin on her weekly radio show.



Forbes magazine publisher and 1996 Republican presidential candidate Steve Forbes was among a host of nationally recognized speakers at the U.S. Chamber in 1996.



Humberto Molina, left, director of finance for the Milwaukee public schools; Barbara Nielsen, South Carolina superintendent of schools; and Rhode Island Rep. Paul Crowley, chairman of the state House Finance Committee, praised a school-finance software program developed by the U.S. Chamber's Center for Workforce Preparation and the accounting firm of Coopers & Lybrand at a news conference at the Chamber. The program, which enables users to track education spending, is being used in dozens of school districts.

John Sununu, chief of staff under President Bush and a former governor of New Hampshire, spoke to business leaders at a Policy Insiders meeting at the U.S. Chamber.

Kiplinger publishing company executives, left to right, Austin Kiplinger, Ted Miller, and Knight Kiplinger, discussed the economic outlook and personal-finance issues during a fall satellite seminar produced by the U.S. Chamber's Quality Learning Services Department. A new series of QLS business seminars begins in March.

The U.S. Chamber's Meryl Comer, moderator of the organization's public-affairs debate program, "It's Your Business," receives the Silver Circle award of the District of Columbia Chapter of the National Academy of Television Arts and Sciences from Arch Campbell of NBC's Washington affiliate, WRC. She was honored for her 25 years in broadcast journalism.

Doug Loon, right, the U.S. Chamber's director of congressional affairs, talks with 1995 Spirit of Enterprise award winners Rep. Richard M. Burr, R-N.C., left, and Sen. Rick Santorum, R-Pa. The award is given annually to lawmakers who supported the Chamber's position on business issues at least 70 percent of the time in the previous congressional session.

The U.S. Chamber's weekly public-affairs debate program, "It's Your Business," recently aired its 900th show. Here, Chamber President Richard L. Lesher, left, who has appeared on every show, discusses campaign-finance reform with, left to right, Bruce Bartlett, of the National Center for Policy Analysis; show moderator Meryl Comer; Donald Simon, of Common Cause; and Ellen Miller, of the Center for Responsive Politics.

Briefing the U.S. Chamber's public-affairs committee on the 1996 elections are, from left, Doug Loon; Rep. Bill Paxon, R-N.Y., chairman of the National Republican Congressional Committee; Chamber President Richard L. Lesher; and William G. Little, a Chamber board member.

Martin Regalia, right, U.S. Chamber vice president and chief economist, confers with the Chamber's Doug Loon before testifying on Capitol Hill against a minimum-wage increase.

Newly elected Rep. Anne Northup, R-Ky., addressed the U.S. Chamber board of directors at its November meeting. She was among the candidates endorsed by the Chamber who won in November.

Gary Condit of California, one of the leaders of the conservative House Democrats known as the Blue Dogs, discussed the 1997 legislative outlook at a meeting of the U.S. Chamber's board of directors.

U.S. Agriculture Secretary Dan Glickman talked to the U.S. Chamber's food and agriculture panel about implementation of the 1996 farm bill.

Litigation

Business Victories In The Courts

The National Chamber Litigation Center, the public-policy law firm of the U.S. Chamber of Commerce, won a number of important legal victories in 1996, including six before the U.S. Supreme Court.

Following are summaries of some of the most important victories in which the NCLC worked on behalf of business:

Replacement Of Strikers

The Chamber scored perhaps its most important legal victory of the year in its fight against the Clinton administration's executive order on striker replacements.

The full 11-member U.S. Court of Appeals for the District of Columbia Circuit, in Washington, rejected the administration's request for a rehearing of a previous decision by a three-judge panel of the appeals court, which had voided the executive order.

The presidential directive had sought to bar the awarding of government contracts valued at more than $100,000 to firms that permanently replaced workers who were on strike for economic reasons, such as wages or benefits.

In the previous decision, the appeals court ruled that the Clinton executive order "is regulatory in nature and is pre-empted by the National Labor Relations Act, which guarantees the right to hire permanent replacements."

Punitive Damages

The U.S. Supreme Court agreed with the NCLC that a $2 million punitive-damages award to a car buyer who was not told that his new vehicle had been repainted was "grossly excessive and therefore exceeds the constitutional limit."

The high court's ruling came in the case of *BMW of North America Inc. vs. Ira Gore Jr.* Gore had sued BMW in an Alabama state court after learning that parts of his new $40,000 car had been repainted to correct damage to the finish incurred during shipping. BMW did not disclose the repairs.

An Alabama jury awarded Gore $4,000 in compensatory damages and $4 million in punitive damages. The punitive-damages award was calculated by multiplying the $4,000 in compensatory damages by the 1,000 cars partially repainted and sold by BMW nationwide over 10 years.

The Alabama Supreme Court ruled that the jury erred in penalizing BMW for the transactions that occurred outside that state. However, although only 14 repainted cars were sold in Alabama, the court reduced the punitive-damages award only by half, to $2 million.

The NCLC argued in its friend-of-the-court brief that the $2 million award was "grossly excessive" and thus violated the due-process clause of the 14th Amendment to the Constitution. The U.S. Supreme Court agreed.

In a related case in Alabama, *Life Insurance Company of Georgia vs. Johnson*, the state Supreme Court concurred with the NCLC in ruling that the net worth of a defendant may be considered only on a case-by-case basis, that a defendant may not be "punished for its size or its success" but only for its conduct, and that the existence and amount of the defendant's liability insurance cannot be disclosed to a jury.

Employee Benefits

In *Lockheed Corp. vs. Spink*, the U.S. Supreme Court agreed with the NCLC that employers can require employees to waive employment claims in exchange for accepting early retirement packages. The court held that such waivers are valid under a federal benefits law and are not "transactions" for purposes of the law's prohibited-transaction rules.

In addition, the high court ruled that the provisions of a 1986 federal budget law affecting pension plans should not be applied retroactively.

Paul L. Spink, a Lockheed employee, sued the company under the federal Employee Retirement Income Security Act (ERISA) of 1974 because the firm changed its pension plan to offer early retirement to workers, including Spink, in exchange for workers waiving their right to sue Lockheed for any reason.

The suit also alleged that Lockheed violated a provision in the Omnibus Budget Reconciliation Act of 1986, which amended ERISA to require firms to cover older employees under their pension plans.

Before the 1986 budget law, employers could legally exclude from their plans workers who were hired less than five years before the normal retirement age of 65.

Spink was hired in 1979 at age 61 and was not covered by the Lockheed retirement plan until the 1986 law's ERISA provision took effect on Jan. 1, 1988.

The NCLC argued—and the Supreme Court agreed—that although ERISA does prohibit certain transactions, such as

loans between a plan and an employer that would benefit the employer, it does not prohibit an employer from setting the eligibility conditions under the plan, changing the eligibility conditions, or deciding to end the plan.

In arguing against the retroactivity of the 1986 budget law, the NCLC pointed to the law itself, which states that the ERISA provision applies "only with respect to plan years beginning on or after Jan. 1, 1988, and only with respect to service performed on or after such date."

Age Discrimination

In *James O'Connor vs. Consolidated Coin Caterers Corp.*, the litigation center successfully argued to the Supreme Court that there must be a substantial age difference between a fired worker and his or her replacement to allow a suit to come to trial under the federal Age Discrimination in Employment Act (ADEA).

In the case, O'Connor sued Consolidated Coin, a Raleigh, N.C., company that operates vending machines, when the firm discharged him after reorganizing its territories. O'Connor, 56, was replaced by a 40-year-old worker.

O'Connor contended that he was discharged because of his age and that he needed only to prove that he is protected under the ADEA, which covers workers 40 and older, and that he was fired and a younger worker was retained.

The U.S. Court of Appeals for the 4th Circuit, in Richmond, Va., dismissed the suit, ruling that O'Connor had not established a case of discrimination because the worker who replaced him was also protected by the ADEA.

The Supreme Court agreed with the NCLC that an age-discrimination plaintiff must show that he or she was replaced by a "substantially younger" person. The court rejected the appeals court's narrow interpretation of the ADEA, which, the NCLC said, could have led to suits involving 41-year-olds, who are covered by the ADEA, who are replaced by 39-year-olds, who are not covered by the law.

Compensatory Damages

The Supreme Court also sided with the NCLC in a case involving excessive compensatory damages and federal courts' ability to review such awards for damages decided by trial juries.

In *William Gasperini vs. The Center for Humanities, Inc.*, Gasperini sued the New York educational center for losing 300 slides of Central America that he had lent to the institution. A federal District Court jury awarded Gasperini $450,000 in compensatory damages, and the trial judge refused to review the jury award. The U.S. Court of Appeals for the 2nd Circuit, in New York, said the award was excessive and cut it to $100,000.

Gasperini argued to the Supreme Court that the Seventh Amendment to the Constitution prohibits U.S. courts from re-examining facts tried by a jury. The high court, however, agreed with the NCLC in ruling that such re-examinations by federal appeals courts are allowed "as a control necessary and proper to the fair administration of justice."

Multiple-Employer Bargaining

In *Antony Brown vs. Pro Football, Inc.*, the Supreme Court sided with the Chamber litigation center in ruling that unionized companies participating in multiple-employer bargaining are not subject to antitrust violations for unilaterally imposing new contract terms on workers after an impasse has developed in collective bargaining.

The NCLC argued that the National Labor Relations Act, which applies to the collective-bargaining process, allows labor and management in multiple-employer bargaining units to set prices jointly in the labor market. The litigation center further argued that the collective-bargaining process does not end when the parties reach an impasse.

Government Contracts

In *U.S. vs. Winstar*, the Supreme Court agreed with the NCLC that the federal government must honor the terms of contracts into which it enters.

The case stemmed from a government practice in the early 1980s of enticing healthy savings and loan institutions to buy failing thrifts by allowing the healthy ones to carry millions of dollars of goodwill as assets on their books.

Congress invalidated the use of goodwill in passing a 1989 savings and loan cleanup bill. As a result, once-healthy institutions were suddenly facing failure or were forced to sell assets, which hurt their earnings. The thrifts sued the government for breach of contract.

The Supreme Court upheld lower-court decisions that ruled the government must reimburse savings and loans for damages suffered because of failure to honor the terms of its contracts.

Other Victories

The NCLC also won a number of cases in lower courts.

■ The U.S. Court of Appeals for the 6th Circuit, in Cincinnati, ruled that certain industrial machines are not subject to an Occupational Safety and Health Administration rule that requires machines that can "unexpectedly" start to be disconnected from their power sources while undergoing maintenance or repair.

Agreeing with the NCLC, the court said that machines that cannot "unexpectedly" start are not subject to the "lockout/tagout" rule.

Many companies have machines and equipment that require employees to take multiple steps or the equipment to sound warnings before they can start.

■ Individuals who certify that they are unable to work in an effort to obtain disability benefits under the Social Security Act cannot claim that they are "qualified individuals with a disability" entitled to the protections of the Americans with Disabilities Act, said the U.S. Court of Appeals for the 3rd Circuit, in Philadelphia, concurring with the NCLC.

■ The U.S. Court of Appeals for the District of Columbia Circuit, in Washington, ruled that the statute of limitations for filing a claim for damaged natural resources under the federal Superfund law is three years from the law's 1987 effective date.

The court also found that parties responsible for damaging a resource are liable only for the costs of restoring the "services" provided by the resource, not for the costs of restoring the resource itself.

■ The same court decided that unions attempting to distribute literature to a store's customers cannot trespass on the store's property if other means of disseminating their message, such as newspaper advertising, are available.

■ In separate cases involving class-action suits before the federal appellate courts for the 5th and 11th circuits, the NCLC successfully argued that lower courts had failed to apply federal rules about the "manageability" of the litigation classes, which in both cases included millions of individuals.

U.S. Chamber Member Benefits

Here are some of the most important products and services offered by the U.S. Chamber.

Retirement Plans

The U.S. Chamber and Fidelity Investments are offering a package of retirement plans and services designed to be accessible, affordable, and convenient for Chamber members.

Fidelity Investments®

The products are intended primarily for businesses employing fewer than 100 workers. They include 401(k), Keogh, SEP-IRA, and SIMPLE—Savings Incentive Match Plan for Employees—plans.

Fidelity provides investment-management and record-keeping services as well as materials for employers to use in communicating with employees about the plans.

For more information, call Fidelity toll-free at 1-888-RET-PLAN (1-888-738-7526).

Airborne Express Discounts Available

Through a special arrangement between the U.S. Chamber and Airborne Express, Chamber members can save up to 37 percent on the cost of overnight shipments to nearly any U.S. destination and to the more than 200 other countries served by Airborne. The company offers round-the-clock customer service and computerized package tracking.

To obtain the discounted service, call 1-800-636-2377 and identify yourself as a U.S. Chamber member. You will be sent a free starter kit on using Airborne Express.

Operating Your Small Business

The Chamber's Small Business Institute is offering a new program designed to teach small-business owners the essentials of operating a small enterprise.

Offered in conjunction with the University of Wisconsin, the five-part program, "Mastering Your Small Business," covers marketing, finance, human resources, and quality-management and legal issues. Participants take "classes" through the university via computer, by fax, or through the mail.

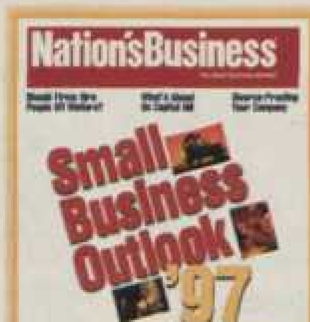
For registration information, call 1-800-835-4730 or (202) 463-5564.

The institute also has available at a discount to Chamber members a human-resources computer program. The all-in-one employee management and compliance software program is designed for small and medium-sized businesses.

For information about the software, including a demonstration disk, call the numbers listed above.

Business Help

Nation's Business, the U.S. Chamber's monthly magazine, offers a number of ancillary products to help people start and expand businesses. See the multipage product advertisement in each issue of *Nation's Business*.



Education Publications

The Chamber's Center for Workforce Preparation has several publications designed to help businesses, communities, and parents prepare today's students for tomorrow's jobs.

New Century Workers: Effective School-to-Work Transition Programs looks at innovative school-to-work transition programs designed and implemented by local education and business leaders throughout the country.

On Target: Effective Parent Involvement Programs provides parents and business and community leaders information on successful programs that have been used to increase parental involvement in children's education.

Year 4: Community Efforts to Achieve the National Education Goals highlights 20 programs that exemplify what can be achieved when a community unites behind a common vision.

To order the publications, call the Center for Workforce Preparation at (202) 463-5525.

Economic Journal

The Center for International Private Enterprise (CIPE), an affiliate of the U.S. Chamber, produces a quarterly journal on economic policy in newly democratized and other developing countries.

The publication, *Economic Reform Today*, is distributed to top government policy-makers and business and opinion leaders worldwide; it can be ordered by calling (202) 463-5901. Issues of the journal are also available on the Internet's World Wide Web. CIPE's Web address is *http://www.cipe.org/*

Vietnam Guide

A guide to doing business in Vietnam is available from the Chamber's International Division.

The book, *Business In Vietnam: Illusion and Reality*, looks at the Southeast Asian country's changing business environment, pointing out the pitfalls as well as the profit potential of doing business there. The book also provides information on travel in Vietnam, on its land and people, and on various industry sectors, such as manufacturing, agriculture, banking and finance, and oil and gas.

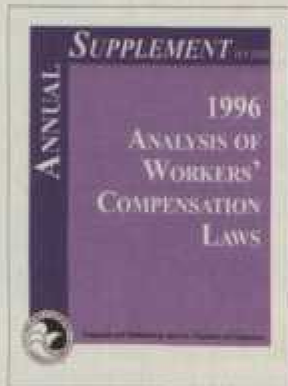
To order *Business In Vietnam*, which costs $50 for Chamber members and $70 for nonmembers, call the Chamber's International Division at (202) 463-5460.

Workers' Comp Supplement

The 1996 supplement to the Chamber's annual *Analysis of Workers' Compensation Laws* guide is available for $8 for Chamber members and $11 for nonmembers.

The supplement details legislative changes in workers' comp laws of the 50 states and the District of Columbia that took effect Jan. 1, 1996, as well as any midyear changes.

To order the supplement, write to the U.S. Chamber of Commerce, Domestic Policy Publications, 1615 H Street, N.W., Washington, D.C. 20062-2000, or call (202) 463-5509. Request publication No. 0459. Checks should be made payable to the U.S. Chamber of Commerce.



The *1996 Analysis of Workers' Compensation Laws*, which contains summaries of the various workers' comp laws, is still available as well.

It includes information on indemnity benefit levels and charts on the various jurisdictions' income benefits, insurance coverage, and legal requirements. The 1997 version will be available in May.

The 1996 analysis costs $15 for Chamber members and $25 for nonmembers. It can be ordered through the address and telephone number listed above. Ask for publication No. 0470.

State Chamber Directory

A listing of officers and staff specialists at state chambers of commerce and at business and industry associations is available from the U.S. Chamber's Office of Chamber of Commerce Relations.

The *'97 Staff Directory* lists the organizations' addresses and telephone and fax numbers. It also includes a listing, with telephone numbers, of the key management

staff members of the U.S. Chamber and its membership and marketing centers.

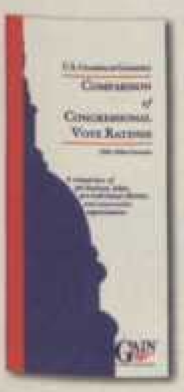
To order the directory, which costs $15 per copy (quantity discounts are available), call (202) 463-5580, or send a check payable to the U.S. Chamber of Commerce to Publications Fulfillment, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062-2000. Ask for publication No. 0499.

How Your Members Of Congress Voted

The latest edition of the Chamber's *How They Voted* guide will be published in the March issue of *The Business Advocate*, and separate additional copies can be obtained in March.

The guide features senators' and representatives' votes in the second session of the 104th Congress on selected issues of importance to business in 1996.

Included are descriptions of the issues chosen by the Chamber in determining its vote ratings for each member of Congress and the business federation's position on those issues. Two sets of ratings are included—one based on votes cast in 1996 and one based on each senator's and representative's Chamber vote rating during his or her congressional tenure.



To order the guide, call 1-800-638-6582. In Maryland, call 1-800-352-1450. Copies are $9 for Chamber members and $11 for nonmembers. Quantity discounts are available.

Another publication for keeping tabs on your lawmakers' votes is the latest edition of the U.S. Chamber's *Comparison of Congressional Vote Ratings*.

The handbook compares various interest groups' 1995 vote ratings of U.S. representatives and senators. The groups are the Chamber, Americans for Tax Reform, the American Conservative Union, the AFL-CIO, and the American Civil Liberties Union. The handbook comparing lawmakers' votes in 1996 will be available in midyear.

Copies cost $10 for Chamber members and $12 for nonmembers. Bulk-order discounts are available.

To order the latest handbook, call the numbers listed above and ask for publication No. 0474.

Member Assistance

Chamber members seeking information about federal policy, legislation, and other developments in Washington that affect business can call the nearest Chamber Membership Service Center.

Listed are the service centers, with phone numbers and the states they serve.

Eastern Center
(301) 424-1860
(Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont.)

Midwestern Center
(630) 574-7543
(Colorado, Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin.)

Southeastern Center
(770) 650-1690
(Alabama, Florida, Georgia, North Carolina, Puerto Rico, South Carolina, Virginia, and West Virginia.)

Southwestern Center
(972) 387-1099
(Arkansas, Kansas, Louisiana, Mississippi, Missouri, New Mexico, Oklahoma, Tennessee, and Texas.)

Western Center
(408) 371-6000
(Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington, and Wyoming.)

Export Resources

The U.S. Chamber publishes a quarterly newsletter on export assistance that is free to Chamber members. Produced by the International Division's Information Center, each newsletter focuses on trade in a specific region.

The Information Center also provides technical assistance to U.S. Chamber members exploring foreign markets.

To obtain a copy of the newsletter, or for more information about the center, call (202) 463-5483.

NAFTA-Related Export Help

An information package to help businesses succeed under the North American Free Trade Agreement among the United States, Mexico, and Canada is available from the Chamber's International Division at (202) 463-5460.

The customized package—"NAFTA Impact"—includes the Chamber's NAFTA guide, the American Chamber in Mexico's guide to doing business in Mexico, a business overview, a guide to customs procedures, and tailored analyses of your exports and market information. The cost to Chamber members is $49.95; to nonmembers, $59.95.

Grass-Roots Services Guide

A free guide to the programs, services, and publications of the Chamber's Office of Membership Grassroots Management is available by calling 1-800-638-6582. In Maryland, call 1-800-352-1450. Ask for publication No. 0448.

Among other programs, the grass-roots office manages the Chamber's Grassroots Action Information Network, the system used to alert members to pending legislative issues. The office also produces a number of publications, such as the annual congressional handbook, and provides other services to Chamber members.

A Guide To Congress

The *1997 Congressional Handbook* is available to U.S. Chamber members at a discount.

The handbook, produced annually by the Chamber, includes the photographs, telephone and room numbers, committee and subcommittee assignments, and key staff members for all senators and representatives in the first session of the 105th Congress. It also contains the locations and telephone numbers of their district offices.

Legislators are listed alphabetically, by state, and by committee.

The handbooks cost $12 each for U.S. Chamber members and $15 for nonmembers for orders of one to nine copies. Discounts are available for orders of 10 to 99 copies and for 100 or more. To order, call 1-800-638-6582. In Maryland, call 1-800-352-1450. Request publication No. 0483.

Annual Benefits Survey

The Chamber's latest annual employee-benefits survey and related software are available separately or as a package.

The survey reports on the 1995 benefit practices and costs of a cross section of American businesses and is the most comprehensive survey of its type. It provides separate figures for salaried and hourly workers and gives comparative cost figures for various industry groups.

Copies of *Employee Benefits, 1996 Edition* are available for $29. To order, call 1-800-638-6582. In Maryland, call 1-800-352-1450.

Also available at the same numbers is the Employee Benefits Analyzer, a $95 software program that allows companies to compare benefits with others in the same industry, region, or size category. The program comes only on IBM-compatible disks.

For members who wish to purchase the survey publication and the software as a package, the cost is $115.

The Chamber is also offering BeneTrax, a computer program that enables firms to analyze their benefits and communicate the cost of benefits to their employees with a personalized benefits statement. The BeneTrax program, which is priced according to company size, can be ordered through the numbers listed above. The small-employer version—for firms with 25 or fewer workers—costs $95.

Toll-Free Help

If you have questions about your Chamber membership account, membership materials and publications, or member services, or if you want to join the Chamber, call the organization's toll-free telephone number: 1-800-649-9719. If you're calling from Washington, D.C., or Maryland, call (202) 463-5330.

Officers and Directors in 1996

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Edwin A. Lupberger
Chairman and President
Entergy Corp.
New Orleans

U.S. Chamber President
Richard L. Lesher
Washington, D.C.

Vice Chairman of the Board of Directors
Michael S. Starnes
Chairman, President, and CEO
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Memphis, Tenn.

Chairman of the Executive Committee
Dennis W. Sheehan
Chairman, President, and CEO
AXIA Inc.
Lombard, Ill.

Treasurer
Stephen K. Lambright
Vice President and Group Executive
Anheuser-Busch Companies
St. Louis

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Retired Chairman and CEO
Phillips Petroleum Co.
Bartlesville, Okla.
U.S. Chamber Chairman, 1991-92

H. William Lurton
Chairman and CEO (Retired)
Jostens, Inc.
Long Lake, Minn.
U.S. Chamber Chairman, 1992-93

Ivan W. Gorr
Chairman and CEO (Retired)
Cooper Tire and Rubber Co.
Findlay, Ohio
U.S. Chamber Chairman, 1993-94

William C. Marcil
President and CEO
Forum Communications Co.
Fargo, N.D.
U.S. Chamber Chairman, 1994-95

Dennis W. Sheehan
Chairman, President, and CEO
AXIA Inc.
Lombard, Ill.
U.S. Chamber Chairman, 1995-96

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Chairman, President, and CEO
Delta Air Lines, Inc.
Atlanta

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Ball Publishing Co.
Greenville, Ohio

Ronald R. Davenport
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Sheridan Broadcasting Corp.
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Will F. Nicholson Jr.
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Wilton, Conn.

Bruce D. Cowen
President
TRC Companies, Inc.
Windsor, Conn.

Michael S. Dell
Chairman and CEO
Dell Computer Corp.
Austin, Texas

Donald W. Dorr, Esquire
Owner
Buchen, Wise & Dorr
Hanover, Pa.

Philip B. Fletcher
Chairman and CEO
ConAgra, Inc.
Omaha, Neb.

Paul E. Glaske
Chairman, President, and CEO
Blue Bird Corp.
Macon, Ga.

David R. Goode
Chairman, President, and CEO
Norfolk Southern Corp.
Norfolk, Va.

Daniel M. Gottlieb
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G & L Realty Corp.
Beverly Hills, Calif.

J. William Grimes
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Netcast Communications Corp.
New York City

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American Hotel & Motel Association
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Chairman, President, and CEO
American Standard, Inc.
Piscataway, N.J.

William M. Koeblitz
Group Vice President
MED Partners, Inc.
Cleveland

Larry A. Liebenow
President and CEO
Quaker Fabric Corp.
Fall River, Mass.

William G. Little
President
Quam-Nichols Co., Inc.
Chicago

Ronald R. Lyons
President and CEO
Stewart Brothers Paint Co.
Alliance, Ohio

Toby Malichi
President and Managing Director
Malichi Diversified, Ltd.
Indianapolis

Richard W. Miller
Executive Vice President and Chief Financial Officer
AT&T
Basking Ridge, N.J.

Donald E. Moffitt
Chairman
Consolidated Freightways, Inc.
Palo Alto, Calif.

Richard E. O'Leary
Chairman
H Enterprises International, Inc.
Minneapolis

Patricia O'Rourke
Chairman
J. A. Tobin Construction
Kansas City, Kan.

James E. Perrella
Chairman, President, and CEO
Ingersoll-Rand Co.
Woodcliff Lake, N.J.

Carol A. Rae
Senior Vice President-External Affairs
Chiron Vision
Claremont, Calif.

Richard Ratcliffe
Chairman
Ratcliffe's, Inc.
Weatherford, Okla.

David E. Sams Jr.
President and Chief Operating Officer
MassMutual Life Insurance Co.
Springfield, Mass.

Joseph Schuchert
Chairman and CEO
Kelso & Co.
New York City

A.J.C. Smith
Chairman and CEO
Marsh & McLennan Companies, Inc.
New York City

Carey I. Stacy
President and CEO
DiaLogos International, Inc.
Raleigh, N.C.

Kelly N. Stanley
President and CEO
Ontario Corp.
Muncie, Ind.

Thomas W. Sturgess
Chairman, President, and CEO
United Stationers
Des Plaines, Ill.

William J. Sweasy
Chairman and CEO
Red Wing Shoe Co., Inc.
Red Wing, Minn.

William R. Toller
Chairman and CEO
Witco Corp.
Greenwich, Conn.

Steve Van Andel
Chairman
Amway Corp.
Ada, Mich.

Mark Van Stekelenburg
President and CEO
Rykoff-Sexton, Inc.
Lisle, Ill.

John J. Veronis
Chairman and Co-CEO
Veronis, Suhler & Associates, Inc.
New York City

Christopher Wass
President
Alphabet Soup
West Des Moines, Iowa

Glenn E. West, CCE
President
Greater Austin Chamber of Commerce
Austin, Texas

V. Cheryl Womack
President and CEO
VCW, Inc.
Kansas City, Mo.

Lawrence J. Ybarrondo
CEO and Chairman
SCIENTECH, Inc.
Idaho Falls, Idaho

Executives in 1996

Carl Grant
Senior Vice President
Communications

R. Bruce Josten
Senior Vice President
Membership Policy

Lawrence B. Kraus
Senior Vice President
Administration

Robert L. Adams
Vice President
Broadcast Division

Stephen A. Bokat
Vice President and General Counsel
General Counsel's Office

Frank Coleman
Vice President
Media Relations Division

Meryl Comer
Vice President
Communications Development Division

Roy C. Fletcher
Vice President
Finance Division

Al Hulvey
Vice President
Membership Division

Roger Jask
Vice President
Federation Programs and Services Division

Jeffrey H. Joseph
Vice President
Domestic Policy Division

Jeffrey Kulick
Vice President
Planning and Marketing Division

Diane S. Large
Vice President
Personnel and Facilities Management Division

Milton E. Miller
Vice President
Public Liaison Division

Martin A. Regalia
Vice President and Chief Economist
Economic Policy Division

David A. Roe
Vice President
Publishing Division

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Vice President
Congressional Affairs Division

Willard A. Workman
Vice President
International Division

Edward Zier
Vice President
Operations Division

Affiliated Organizations

Center for International Private Enterprise
John D. Sullivan
Executive Director

Center for Workforce Preparation
Jeffrey H. Joseph
Executive Vice President

National Chamber Foundation
Martin A. Regalia
Executive Vice President

National Chamber Litigation Center
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